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ABSTRACT

This monograph is based on a conference that was held under the sponsorship of the Midwest Administration Center, Department of Education of the University of Chicago, in February 1977. The conference centered on varying interpretations of the role of the school, the home, and the state in the governing and financing of education in Illinois and in the nation, as well as on conflicting views of the responsibilities of the local, state, and national governments. The program reflected the fact that disputes that arise as a result of overlapping jurisdictions are processed in state and national legislatures as well as by local school boards and that a revised and more activist role has been taken by state and federal court systems in recent years. The general trend appears to be toward a centralizing of decision-making, with a substantial degree of power being shifted from localities to both state and federal government, but especially to the latter. The main focus of the conference was on policies respecting educational finance at the state rather than the national level, and, in particular, on the present status and future outlook of the new school finance reform movement. (Author/IRT)

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Dilemmas in School Finance

J. Alan Thomas
Robert K. Wimpelberg, Editors

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
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Acknowledgments

In February 1977 the Midwest Administration Center, Department of Education of the University of Chicago, sponsored a conference on "Dilemmas in School Finance: Illinois and The Nation." This monograph is a report of the papers and parts of the proceedings of that conference.

Both the conference and this publication developed from a series of conversations between members of the Midwest Administration Center and suburban Chicago schoolpeople. Ten people were variously involved in the initial discussions and preparation for the conference. The Chicago area schoolpeople were: Peter N. Todhunter, president of the board of education, Roderick N. Bickert, superintendent, and George R. Babigian, business manager, New Trier Township High School District, Winnetka, Illinois; Wesley Gibbs, superintendent, Niles Township High School District, Skokie, Illinois; and Allan F. Dye, business manager, Evanston Township High School District, Evanston, Illinois. Members of the Midwest Administration Center and Department of Education, University of Chicago, were: Philip W. Jackson, professor and chairman; Dan C. Lortie, professor; J. Alan Thomas, professor; Robert K. Wimpelberg, staff associate; and Frances K. Zemans, assistant professor.

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Chicago, Illinois
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J. Alan Thomas
Robert K. Wimpelberg

1 Dilemmas in School Finance: Introduction

J. Alan Thomas

This monograph is based on a conference which was held under the sponsorship of the Midwest Administration Center, Department of Education of the University of Chicago, in February 1977. The Department's purpose in planning these meetings was to provide a forum for the examination of some of the major dilemmas which surround the manner in which education is financed, both in the state of Illinois, and in the nation as a whole. The issues which were discussed are closely related to the values which citizens hold with respect to education and government; value conflicts in turn are a major source of disagreement over the questions which engaged the discussants.

In more specific terms, the conference centered on varying interpretations of the role of the school, the home, and the state in the governing and financing of education, as well as on conflicting views of the responsibilities of local, state, and national governments. The program reflected the fact that disputes which arise as a result of overlapping jurisdictions are processed in state and national legislatures as well as by local school boards, and that a revised and more activist role has been taken by state and federal court systems in recent years. The general trend appears to be toward a centralizing of decision-making, with a substantial degree of power being shifted from localities to both state and federal governments, but especially to the latter.

The net effect of these changes will be debated for many years. On the one hand, legislative and judicial decisions at the state and

federal level have helped redress injustices which stem both from the fragmentation of educational government which has favored the more wealthy communities and penalized the less wealthy, and from the failure of many educational systems to address the educational needs of their students who come from minority and disadvantaged backgrounds. On the other hand, since the quality of a child's education largely depends on decisions made within classrooms and homes, the reforms of the last decade may not have had as substantial an effect on the educational environments of poor and minority children as the courts and legislatures intended.

Issues of school finance tend to become confused since the rhetoric of equal educational opportunity becomes translated, at the political level, into a competition among communities for the resources which are collected through state sales and income taxes. Furthermore, the need to translate ideological and political issues into technical formulations for taxation and resource distribution may result in the implementation of procedures which do not accurately reflect the intent of courts or legislatures. Finally, a lack of adequate data and, more importantly, a failure to allocate sufficient resources for its collection and analysis have left us with a paucity of research into the effects of revised policies.

Perhaps the central value issue concerns the proper locus of responsibility for education in our type of society. One point of view, which is not, I believe, entirely anachronistic, is that since education, by its very nature, requires an intense interaction between children, parents, and teachers, its existential focus is the home and the local community. If this position is accepted, higher levels of government should intervene only when issues of efficiency and equity clearly indicate that an imperative need for such action exists. The opposing viewpoint is that a combination of the needs of the nation state with an increasing degree of social and economic integration demand the creation of educational systems which are centrally organized and financed.

Philip Kurland's paper, "Leviathan and Education," written and delivered in his own inimitable style, may appear at first blush to be only peripherally related to the topics of the conference, since he deals primarily with the freedoms traditionally assigned to institutions of higher learning. However, he treats in a most convincing manner a phenomenon which is central to educational policy making, namely, the use by the federal government of the power of the purse to influence policy in arenas where neither statutes nor the Constitution provide a legal basis for intervention. He quotes Justice Frankfurter's declaration that teachers are "the priests of

our democracy" who cannot properly fulfill their function if they are denied freedom of thought and action. Custom and common understanding protected the academy's right to determine who may teach, what may be taught, how it shall be taught, and who shall be admitted, but, in recent years, federal agencies have challenged these "rights," often using the threat of withholding money granted for entirely different purposes.

Francis Keppel, well qualified by experience and a longstanding concern for the education of children from underprivileged homes, presents the case for federal and state involvement in the definition of priorities and the allocation of resources. He clearly believes that the development of programs which are responsive to the needs of the disadvantaged and the handicapped is sufficiently important to justify confrontations between state, local, and federal agencies over the distribution of power, as well as the inevitable accumulation of bureaucratic rules and regulations.

It is unfortunate that reactions to the issue which Keppel raises have become highly polarized, since there is considerable merit on both sides. On the one hand, it has required the intervention of federal and state governments and the courts to apply sufficient pressure on educational agencies to ensure an increased concern for underprivileged groups of students. However, the costs of these policies include centralized decision-making, together with a probable reduction of the sensitivity of educational programs to locally determined priorities. Keppel's solution to the problem, improved planning combined with more flexible rules, may be based on an overly optimistic expectation of bureaucratic behavior.

The main focus of the conference was, of course, on policies respecting educational finance at the state rather than the national level, and, in particular, on the present status and future outlook of the new school finance reform movement. This movement, whose genesis may be traced to the publication in 1967 of Arthur E. Wise's *Rich Schools, Poor Schools*, and the 1970 volume, *Private Wealth and Public Education* by John E. Coons and his associates, has resulted in a frontal attack on the financial inequalities which result from the fact that, in most of the country, expenditures and tax rates for education were associated with the property valuation behind each child. The new reform movement has two characteristics which distinguish it from previous efforts to introduce greater equity into school finance laws: the first is the reliance on the state court system and the appeal to state constitutions which commonly require the establishment of an educational system which is free and uniform; the second is the enlistment in the reform cause of a

variety of actors, including, as Kelly points out, law professors, economists, political scientists, legislators, public interest attorneys, and activists whose concern is to provide equitable financing of schools for children from minority or impoverished families. Through his role with the Ford Foundation, James Kelly has been able to provide intellectual and organizational support for the movement, as well as to underwrite the costs of some of its activities.

While a few observers, including myself, were sufficiently naive to hope that school finance reform would be accompanied by a simplification of the cumbersome and often irrational laws which governed the distribution of state funds to local school districts in most states, it seems likely that one result of the partial shifting of responsibility for financing education from localities to states will be more, rather than less, complexity. Since it is generally agreed that both costs and needs vary within each state, centralized financing systems must attempt to take local conditions into account; that this can be done in a manner which is both equitable and efficient is not at all a foregone conclusion. Among those most active in fostering a better understanding and increased knowledge about school finance, as well as providing leadership for the reform movement, is Allan Odden who, in his position with the Education Commission of the States, is admirably placed for this role. In his paper Odden summarizes research dealing with such topics as the impact of school finance reform on urban school districts and minority and poor children, the use of cost of living indices in the distribution of state aid, the effect on financial equalization of the use of categorical as opposed to general grants, and the degree to which new approaches to state finance call for a greater integration of state and federal financial programs. Finally, since some financial reforms, especially the use of power or resource equalizing grants, may exacerbate the harmful effects of the property tax, the role of tax refunds to low income families as protection from the regressive nature of the property tax is discussed.

Statutory and conceptual complexities make it difficult to evaluate the effects of fiscal reforms, in particular their effects on districts and individuals with varying social and economic characteristics; there have been few such evaluations, and there is not as yet an adequate data base for interstate comparisons of the effect of reform on equity and efficiency in the distribution of the burdens and benefits of education. One reason for this situation is that the intent of legislation is unclear. The researcher must evaluate not only the effect of the laws but the degree to which changes in fiscal distribu-

tion mirror his perception of legislative intent. Interstate studies are even more difficult to make since both legislative intent and the socioeconomic context of reform vary among states. Fortunately, some careful evaluations are being made, including the efforts of Alan Hickrod and Ben Hubbard, who have conducted annual studies in a standard format of the 1973 Illinois school finance law. They make the assumption that the intent of the General Assembly included, first, a reduction of disparities in expenditures per pupil to a "permissive" range, and, second, a decline in the relationship between expenditure levels and local district wealth. Their chapter reports on their procedures and findings.

The effects of the finance reform movement cannot, however, be evaluated solely on the basis of changes in flows of money, necessary though these changes may be. Equality in educational opportunity stems largely from differences in children's home and school environments, and the relationships between policy formulation at the macro level and the production of learning at the micro level have not yet been explored. Furthermore, as we noted above when discussing federal policies, costs as well as benefits result when financial and other decisions are centralized; one such cost is the loss of the localities' ability to make decisions about the amount of taxes they are willing to pay and the quality of education they wish to purchase. Again, two sets of values, both deeply embedded in the national ethos—in this case equality of opportunity and consumer sovereignty—are counterposed. There is no rational way of handling this type of conflict, except to relegate it to the political arena.

Members of the "new breed" of school finance experts differ from their predecessors both in their goals and in their heavy reliance on the courts as a route to obtaining more equitable revenue distribution systems. Nevertheless, they, like their predecessors, must rely on the political process for the implementation of their wishes. Even though the judicial branch of state government and, in several states, the governors have endorsed the principle of partially shifting the financial burden for the support of education to the state level in order to reduce inter-district disparities in tax rates and expenditures, state legislatures are still, as in the past, composed of individuals who are responsive to the interests of their constituents, and are subjected to pressures applied by a variety of interest groups. In large and economically complex states such as California, Illinois, and New York, where the pressures applied by opposing forces impede compromise, the problem of passing legislation which is acceptable to reform groups is accentuated. As

Hayward points out in the case of California, full compliance with court decisions may at times be politically impossible, although incremental reform may be feasible.

Langston's work further suggests that an examination of the political process and of the roles played by state legislators may reveal motivations and political outcomes which differ substantially from those envisioned by those who develop the theoretical rationale for reform. Frequently only a small number of legislators are thoroughly familiar with proposed legislation. Knowledge is a form of power, and small numbers of legislators working with local education groups may have a substantial effect on the laws which emerge.

Coalitions of school districts which reflect the financial status of their communities, the types of school district (elementary, secondary and unit), the urban-suburban-rural trichotomy, and a combination of regional and economic conditions, including whether local taxes are based primarily on agricultural, industrial, or residential property, may prove to be effective lobbyists who inform and influence their legislators. Kelly deals with a similar problem, but places in a broader context the issues of competition for scarce resources and the fragmentation of interest groups concerned about the support of education. In particular, he points to increased conflict between school districts and general municipal government, and a decline resulting from demographic change and from a breakdown of "the long-standing parent-teacher lobby" in local support for education, as affecting the level of resources allotted to education. In addition, conflict is introduced as a result of the increased involvement of courts, legislatures, and governors in educational finance, the cleavage among urban, suburban, and rural interests, and, finally, the increased activities of lobbying groups which are more interested in funding special categories of programs than in furthering the overall level of public support for education.

Many of the reforms in education finance in the United States are, in my opinion, for the better and were long overdue. While processing reforms through legislative bodies is frustrating and sometimes defeats the purpose of the initial proposals, the net effect is to ensure that various interests are adequately protected. In the end, two caveats mentioned earlier bear repeating. Increasing efforts are needed to determine the effect of financial policy on educational procedures in the classroom, and local involvement in decision-making is important and should be preserved. It is our hope that the conference contributed to the important dialogue between school board members, local educators, and others who are concerned with improving education for all children.

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2 Leviathan and Education

Philip B. Kurland

My subject is the cost of school finance. I do not mean, of course, to expatiate on bonds and interest rates. What I do mean is that the attainment of funds, even in these straitened times, is not an end in itself. And care should be taken that the means and ends of education are not distorted or frustrated by the price of the moneys available. In a different context I should say that my subject is not academic freedom but the freedom of the academy. And I apologize if what I shall have to say is reported not only in the context of law but the context of constitutional law. For while I do not know a lot about the subject, I know more about that subject than about any other.

Neither academic freedom nor freedom of the academy is mentioned in the Constitution of the United States. After all, public education is a late nineteenth-century growth, and the American university did not really come into existence until the twentieth century was almost upon us. It would have required greater prescience than even the Founding Fathers had, to make provision for these educational institutions.

Academic freedom, however—the right of faculty to be free from control by government over their teaching, their research, and their public utterances—has received judicial protection, sometimes through the First Amendment of the United States Constitution. A concurring opinion by Justice Frankfurter, one of only two Supreme Court justices ever to be elevated directly from the chair to the bench, is instructive as to the reasons for such protection:

That our democracy ultimately rests on public opinion is a platitude of speech but not a commonplace in action. Public opinion is the ultimate reliance of our society only if it be disciplined and responsible. It can be disciplined and responsible only if habits of open-mindedness and of critical inquiry are acquired in the formative years of our citizens. The process of education has naturally enough been the basis of hope for the perdurance of our democracy on the part of all our great leaders, from Thomas Jefferson onwards.

To regard teachers—in our entire educational system, from the primary grades to the university—as the priests of our democracy is therefore not to indulge in hyperbole. It is the special task of teachers to foster those habits of open-mindedness and critical inquiry which alone make for responsible citizens, who, in turn, make possible an enlightened and effective public opinion. Teachers must fulfill their function by precept and practice, by the very atmosphere which they generate; they must be exemplars of open-mindedness and free inquiry. They cannot carry out their noble task if the conditions for the practice of a responsible and critical mind are denied to them. They must have the freedom of responsible inquiry, by thought and action, into the meaning of social and economic ideas, into the checkered history of social and economic dogma. They must be free to sift evanescent doctrine, qualified by time and circumstance, from that restless, enduring process of extending the bounds of understanding and wisdom, to assure which the freedoms of thought, of speech, of inquiry, of worship are guaranteed by the Constitution of the United States against infraction by National or State government. [*Wieman* v. *Updegraff*, 344 U.S. 183, 196–97 (1952).]

Thus, academic freedom is thought to be incorporated into the protection of the Constitution because it is an essential underpinning for all of those freedoms that are specified in the First Amendment.

Then, the justice shifted from freedom of the academic to freedom of the academy, and he concluded with an extensive quotation from the testimony of Robert M. Hutchins before a subcommittee of the House of Representatives. The shift from the rights of teachers to the rights of universities was an elision without a halt but also without a recognition of any difference:

The functions of educational institutions in our national life and the conditions under which alone they can adequately perform them are at the basis of these limitations [i.e., the First Amendment limitations] upon State and National power. These functions and the essential conditions for their effective discharge have been well described by a leading educator:

"Now, a university is a place that is established and will function for the benefit of society, provided it is a center of independent thought. It is a center of independent thought and criticism that is created in the interest of the progress of society, and the one reason that we know that every totalitarian government must fail is that no totalitarian government is prepared to face the consequences of creating free universities.

"It is important for this purpose to attract into the institution men of the

> greatest capacity, and to encourage them to exercise their independent judgment. . . .
>
> "A university, then, is a kind of continuing Socratic conversation on the highest level for the very best people you can think of, you can bring together, about the most important questions, and the thing that you must do to the uttermost possible limits is to guarantee those men the freedom to think and to express themselves." [Id. at 198–99.]

In still another case, we find Justice Frankfurter espousing the same cause of academic freedom and freedom of the academy (*Sweezy* v. *New Hampshire*, 354 U.S. 234, 263 [1957]). This time, he borrowed from Thomas Henry Huxley, including a definition of the essential freedoms necessary to a university:

> It is the business of a university to provide that atmosphere which is most conducive to speculation, experiment and creation. It is an atmosphere in which there prevail "the four essential freedoms" of a university—to determine for itself on academic grounds who may teach, what may be taught, how it shall be taught, and who may be admitted to study.

To suggest, however, that these are but examples of Supreme Court extrapolation of the meaning of the Constitution so far as academic freedom and freedom of the academy are concerned would be misleading. There is not much else in Supreme Court jurisprudence to specify the proper realms and limits of this freedom of the academy.

When one seeks a reason for this paucity of judgments on the subject, it is not hard to find. There would seem to have long been a general acceptance of the concept of freedom of the academy from governmental infringement which needed no judicial protection because it was not threatened. Until the Second World War, "the four essential freedoms" of the academy stated by Huxley—"to determine for itself on academic grounds who may teach, what may be taught, how it shall be taught, and who may be admitted to study"—were as fully protected as if they had been written into the Constitution. A fifth freedom, unspecified by Huxley because he spoke before the growth of the modern university, the freedom to determine the subjects of research, was equally assured.

In part, the common understanding, custom as constitution, protected the academy. In part, the academy was protected from federal interference by the recognition that the national government's limited powers afforded no basis for federal interference in the academic world. Until the growth of the service state in the 1930s and 1940s, the federal role in education was pretty much limited to its contributions to land grant colleges dating back to the Northwest Ordinance of 1787.

Two congeries of events brought the federal government into the field of education in the 1940s. The first was a change of constitutional doctrine of no small importance. The Supreme Court of the United States invalidated the New Deal's AAA program in a decision that announced that the constitutional provision that the national government could spend money for the general welfare was not an authorization to it to spend moneys on subjects other than those enumerated in the list of congressional powers in Article I of the Constitution. The spending power was deemed supplementary to and not in addition to the enumerated powers (*United States* v. *Butler*, 297 U.S. 1, 44 [1936]). As Robert H. Jackson, not yet but soon to be a member of the Court, wrote: "the original *Butler* decision, more than any to that date, had turned the thoughts of men in the Administration toward the impending necessity of a challenge to the Court" (*The Struggle for Judicial Supremacy* 139 [1941]).

The Roosevelt court-packing plan came, and whether or not it succeeded depends on the measure invoked. The proposed statute was defeated, but the New Deal came to have its way in a vastly changed membership on the Court. In 1937, in an opinion written for a split Court by Justice Cardozo, the Constitution was revised (*Steward Machine Co.* v. *Davis*, 301 U.S. 548 [1937]). The day of the service state was upon us. The "general welfare clause" was established as an independent ground for the federal spending power which need not be tied to any specific authority granted to the national government by the Constitution.

Much later came another change in the Constitution. The law came to recognize that there were rights that might be asserted against the academy by individuals. And the national government, under the guise of the Fourteenth Amendment, began to impose duties on universities that clearly invaded Huxley's "four freedoms." Universities were, in effect, being told whom they must have on their faculties, not measured by academic considerations and whom they must have in their student bodies, not measured by academic considerations. But I shall go no further down this line, because we are concerned with finances, the power and curse of the almighty dollar.

After the Second World War, the government went about the business of buying up the academy. And one can ask, why not? It is an arm's-length transaction between a willing buyer and a willing seller. There is no Thirteenth Amendment to prevent the academy from selling itself into bondage. There is no Labor Relations Act to prevent the exercise of economic coercion by one on the other. Edward Shils recently described the condition of which I speak

(Shils, "Government and the University," *The International Council on the Future of the University*, newsletter, vol. 3, no. 5, December 1976):

> The universities of the United States have allowed themselves to be placed in a very vulnerable position by the federal government. Always eager to extend the sphere of their activities, always eager to be of service to society, they have become dependent on the federal government for the conduct of certain activities which are integral to their program of discovery, teaching and training, mainly in scientific research and in training for the learned professions. They have become dependent on the federal government for funds to such an extent that they feel themselves constrained to respond to every programmatic proposal of the federal government in order to relieve their immediate financial embarrassment. Many of these proposals promise only transient relief from this embarrassment; they add to administrative expenses, they are of marginal intellectual interest if of any interest at all, and some of them bring the universities into further financial difficulties once the government decides to bring them to an end. If the universities are to help establish "a new constitution of government and university according to the idea of each," they must come to a better understanding of what is their own "idea." The idea is certainly not the idea of being a "service station" to the federal government, performing services which do not even pay for their actual cost in monetary terms and which deform the conception of the "idea" by which they should conduct themselves.
>
> It might appear offensive to counsel restraint to the impoverished and the desperate who have no unity among themselves in the face of a monopolistic and often harsh dispenser of momentary relief from poverty and desperation. The government as a monopolist is in a strong position in dealing with a multitude of separate applicants for its support. The existing constitution of government and university developed out of good intentions on both sides but it has developed into a condition which is inimical to the long-term interest to both sides. It is even repugnant to the nature of a contract; it becomes a relationship between sovereign and subject, between a suitor for largesse and a dispenser of it. There must be a restoration of a balance which renders unto Caesar what is Caesar's and unto understanding what is necessary to it.

Having already borrowed at great length from Professor Shils, allow me to offer a little more of his language, because I cannot improve on it:

> the government must discontinue its piecemeal intrusion into the affairs of universities, intruding into the details of admissions, appointments, curriculum, etc. These intrusions are infringements into a sphere of action which universities can justly claim to be one in which their traditions, their experience and the record of their judgment entitles them to autonomy. They are also fields in which the civil service has little likelihood of acting wisely or foresightfully. They are moreover disturbing to the interior life of universities, they consume a great deal of time and they are fruitlessly vexatious.

The recent intrusions of the federal government into the making of academic appointments is too well known to require extended treatment here. It is of a piece with the rest of the "policy" of the federal government with regard to universities, in the ineptitude of its conception, in its piecemeal character, in the hostility and harassment with which it is executed and in the comprehensively damaging character of the sanctions which are threatened against the universities for failure to comply. I think there is no government in the world, even in the communist countries or in the oligarchies of Latin America, Africa or Asia, which threatens the universities of its country with such large-scale sanctions for infringements of any of the very numerous demands which are made of them.

Mr. Shils dwelt on generalities. As always, he took the high road of principle. Let me take the low road of example by recounting a specific case of the moment. Let us suppose that the national government, in its wisdom, decides that there are too few doctors being trained for the good of the nation. And, let us suppose, that the government decides to afford monetary inducements to students to attend medical schools. And, let us suppose, that, recognizing the fact that tuition pays only a small part of a medical school education, it affords capitation grants to medical schools to help them bear the cost of training the additional medical students. The costs to the medical school far exceed the income from both tuition and capitation grants. But university medical schools, being dedicated to societal good, as well as research and training, expand their facilities and their faculties to provide the additional education. So far, so good. Up to this point, the government has shared with the university the cost of training additional doctors. The university has, perhaps not wisely, committed resources not only for the period of commitment to the proposed government subsidies but for the indefinite future. Hospitals, laboratories, and faculties are not negotiable paper. A university that builds them and hires them has a very long-term commitment on its hands, a commitment which is in no way compensated by the federal monies received. Let us suppose the government decides that it really isn't interested in just more doctors but in more doctors with particular specialties or more doctors who will commit themselves to work in specific parts of the country, and the capitation grants as well as the scholarships are so conditioned. And, let us suppose, the government discovers that a large number of Americans incapable of securing admission to American medical schools decide to go abroad to medical schools, most notoriously those where admission is secured by making large monetary contributions. Necessarily their medical training is primarily in a foreign language.

Let us suppose that the statute renewing the capitation grants, therefore, adds still one additional condition. The capitation grants for all students will depend upon the commitment of the university to accept as upper-class students American students who have completed two years of training at a foreign medical school and who have passed the first boards. The American universities are not required to accept all such students. Only those who met all the university's standards, except the standards for residence and academic qualifications. Moreover, the students to be accepted are not to be chosen by the university but are to be named by the secretary of health, education, and welfare. The reason given by Congress for the imposition of these students in the universities was succinctly stated by the Congress:

> It is not the conferees' intent, in including this requirement, either to encourage or condone the practice of U.S. citizens receiving their medical education in foreign medical schools if such persons intend to practice medicine in the United States. Rather, it is intended to remedy an unfortunate situation which currently exists. In the view of the conferees, the current situation, in which thousands of U.S. citizens are presently enrolled in foreign medical schools where, in most cases, the education they are receiving is not of the quality provided by U.S. medical schools and is being taught in languages other than English, is a situation which deserves the immediate attention of the Department of Health, Education, and Welfare, the American Medical Association, and the Association of American Medical Colleges.

And so, until the next time the statute comes up for renewal, the decision of Congress is that American universities must make new places—certainly they are not expected to displace students who have had their training in this country and have met the academic requirements of the university—for poorly trained students who do not meet the academic requirements and who are to be selected by the secretary of health, education, and welfare.

Now, it is true that the universities are not required to take these students. They are free to reject them and thereby to reject also, not merely the capitation grants for these additional students, but the totality of the capitation grants.

The question I would address now is whether the condition in the statute I have just described should be regarded as invalid. My heart, as well as my mind, being with the universities, I believe that the conditions in the capitation grant statutes are unconstitutional. But, as with equal financing requirements, I cannot predict with certainty that the courts will be with me.

The argument for the validity of the imposed conditions is not difficult to state. It takes the form of an aphorism that is almost as

popular on the campus of the University of Chicago as "There is no such thing as a free lunch." It is the related principle of classical economics that "he who pays the piper calls the tune." But I submit that the proposition is—or should be—inapplicable here for two reasons.

The first is that, as a matter of fact, the university is "paying the piper" every bit as much, if not more than, the government. Each is contributing a large sum of money and assets for the education of additional medical students. The program for expansion was undertaken as a partnership arrangement, not for the benefit of the university, but for the benefit of the society for which the government is purportedly the representative and the university is not. As between the university and the government, it is the government that is the beneficiary of the program, not the university. But both university and government are financing work in it.

Second, the proposition about the payer and the piper implies that the payer is spending his own money and is, therefore, entitled to condition the payment. That is not the case here. The money paid by the government no more belongs to the bureaucrats who spend it or the legislature that appropriates it than money in the control of private or corporate trustees belongs to the trustees rather than to the beneficiary of the trust. A trustee's funds are held by the trustee not to be expended at the whim or will of the trustee but only in accord with the will of the grantor and for the best interests of the beneficiary. Even where there is great discretion in the trustees, the expenditures are valid only if they fall within the charter of the trust document, which in this case would be the Constitution of the United States.

It seems clear to me that the Constitution does not give to the government any authority to tell the academy what courses should be taught or which students it should teach. On the contrary, if we take seriously the dicta from the Supreme Court's opinions that I have already stated, such actions by the government are not only not authorized, they are specifically forbidden as violations of the First Amendment.

The argument goes, however, that the government is not imposing curricula or choosing students. It is simply offering to buy from the university its freedom. And surely, it is said, we have known since the reversal of the *A.A.A.* opinion that Congress can authorize the purchase of anything that it wants, so long as it decides that the expenditure is for the "general welfare."

It was years ago, before Charles Reich turned from lawyer-philosopher into a flower child who sought to "green" America, that he perspicaciously noted in a law review article:

> The most clearly defined problem posed by government largesse is the way that it can be used to apply pressure against the exercise of constitutional rights. A first principle should be that government must not have power to "buy up" rights guaranteed by the Constitution. It should not be able to impose any condition on largesse that would be invalid if imposed on something other than a "gratuity." [Reich, "The New Property," 73 *Yale L.J.* 733, 779 (1964).]

The fact is that, at a lower level of society, the actions of the government to use its spending power to get the academy to do what the government could not legitimately order it to do would be not only immoral but illegal. Blackmail, in common law, is the threat of the use of force to compel the victim to perform an act, even an act that the victim is otherwise under a duty to perform.

My proposition that the conditions on the government grant are invalid is not without support in Supreme Court decisions. There is a judicial doctrine of "unconstitutional conditions" that is applicable to the example I have cited. Were it not for the fact that the doctrine has taken a bifurcated path in the Supreme Court I should be more certain of my conclusion. Unfortunately, the two lines of decision have never been fully reconciled. Perhaps the time has come.

The line of authority that I would follow derives from a mundane case entitled *Frost & Frost Trucking Co.* v. *Railroad Commission*, 271 U.S. 583 (1926). There a state, with undisputed "power to prohibit the use of the public highways in proper cases," attempted to require a trucker to become a common carrier as a condition of using the highways. The Court said that the state could not do by indirection what it could not directly do.

> Constitutional guaranties, so carefully safeguarded against direct assault, are open to destruction by the indirect but no less effective process of requiring a surrender, which, though in form voluntary, in fact lacks none of the elements of compulsion. . . . In reality, the carrier is given a choice between the rock and the whirlpool—an option to forego a privilege which may be vital to his livelihood or submit to a requirement which may constitute an intolerable burden.
>
> It would be a palpable incongruity to strike down an act of state legislation which, by words of express divestment, seeks to strip the citizen of rights guaranteed by the federal Constitution, but to uphold an act by which the same result is accomplished under the guise of a surrender of a right in exchange for a valuable privilege which the state threatens otherwise to withhold. It is not necessary to challenge the proposition that, as a general rule, the state, having power to deny a privilege altogether, may grant it upon such conditions as it sees fit to impose. But the power of the state in that respect is not unlimited; and one of the limitations is that it may not impose conditions which require the relinquishment of constitutional rights. If the state may compel the surrender of one constitutional right as a condition of its favor, it may, in like

> manner, compel a surrender of all. It is inconceivable that guaranties embedded in the Constitution of the United States may thus be manipulated out of existence. [227 U.S. 593–94.]

The doctrine has been not infrequently invoked and at least once in the area of academic freedom, when the Court held that a state may not remove a professor from his job because he invoked his Fifth Amendment privilege.

There is another line of decisions that dates back to still another of Oliver Wendell Holmes's unfortunate witticisms that have all taken so heavy a toll on the development of constitutional law. Holmes was on the Supreme Judicial Court of Massachusetts when he ruled that a police official could be compelled to surrender his right of free speech as a condition of his employment (*McAuliffe* v. *Mayor of New Bedford*, 155 Mass. 216, 220 [1892]). A policeman, said Holmes, "may have a constitutional right to be a policeman." Although the holding of this case is probably no longer good law, there are recent decisions which sustain the propriety of imposing conditions destroying constitutional rights that could not be taken directly. This happened in the recent decision of *Buckley* v. *Valeo*, 424 U.S. 1 (1976), where the Court sustained the power of the government to withhold election funds unless the recipient surrendered his right to spend other moneys in his pursuance of the presidency.

I think that the policeman line of cases is clearly "not a happy one." I think, too, however, that they are clearly distinguishable from my medical school case. For, where the condition of surrender of a constitutional right has been sustained, its surrender was a necessary ingredient in the legitimate adjudication of the statutory scheme in question. That is not the case with the medical school, certainly so far as the HEW power of appointing students is concerned. That provision was added as an afterthought in conference committee without debate or informed judgment. It offered nothing toward the goals or purposes that the statute was enacted to effect. It would deprive the universities of their constitutional rights without any countervailing academic values being attained.

My point in all of this is only that I do not think it incumbent on the universities placidly to submit to invasions of their academic integrity as a condition of receiving financial aid from the government. And I wish that the universities would show a commitment to their function that would afford them the courage to face up to the illegal demands that threaten the destruction of the independence of the academy which is the only justification for its existence.

I shall end with a quotation from the Faust legend: a human who

has sold his soul to the devil is no longer a human. An academy that has sold its will over the selection of faculty and students, over its curriculum and research, to the government is no longer an academy. In neither case can it be called a fair bargain. Nor should it be thought that the bureaucracy's power is less evil than that of the devil. Certainly it was not the best interest of Faust that brought the devil's offer; nor is it the best interest of the academy that brings forth the government's largesse. It may be, however, that the idea of the university is of consequence only to a free society, a concept which is itself going out of style so rapidly as to be seen only here and there in the United States and almost nowhere else.

In sum, all that I have to say could be stated in two sentences. (1) Before you agree to be financed by the devil, find out the true cost of his money. (2) The further away you get from local financing, the closer you come to the devil.

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3 The National Interest and Educational Variation

Francis Keppel

There is no general statement of the national interest in education that I know of. Each of us has to decide what history has wrought so far and reach his own conclusion on the relation of these developments to the rights of the people. Since there have been major changes in the expression of the national interest in recent decades, I venture to set forth my own interpretation of both federal and state interests, with particular attention to educational variation.

I will begin by suggesting two categories of educational variation. The first has to do with variation in the type of education to be offered, the second with the type of learner to benefit from such education. At various times over the past century the federal government has singled out for special interest agricultural and mechanical education, vocational education, education in science and foreign languages, in reading, as well as scientific research and scholarship. The different types of learners have included veterans, economically and socially disadvantaged students (Title I of the Elementary and Secondary Education Act of 1965), native Americans, bilingual and bicultural groups, and the several categories of handicapped and special students. Surely the mere listing of these types is evidence that the federal government has by its actions shown an interest in educational variation both in substance and in category of learner. And the analysis of the laws and policies of the several states will show a comparable interest in educational variation, as well as a continuing struggle to adjust the interest in varia-

tion with an equally strong concern for equity and equal opportunity.

What is obvious, of course, is that federal and state educational interests overlap and that both of these interests overlap with the interests of local schools and postsecondary institutions. It is this overlap that causes much of our confusion today and is perhaps also the cause of bureaucratic restrictions on schools and colleges. To quote from Professor Kurland on another occasion:

> It should, however, be obvious that the problems of government administration have changed only in quantity and not in quality in the two centuries between English autocratic bureaucracies and American democratic bureaucracies. Once again—if not still—we are enmeshed by legislation without representation. Once again appointed government officials make the laws—by way of regulations and guidelines and executive orders, when not by simple ukase; once again the same agents determine the liability of individuals under the rules that they have created and the remedies that are to be exacted from the hapless object of their benignity.
>
> . . . .Americans are no longer fettered only by laws made by elected legislatures, the fetters are far more frequently chains that are forged by individuals and bureaus, often without legislative authority and sometimes in the face of legislative policy to the contrary.

These fetters and chains of which Professor Kurland wrote are the result, as I have suggested, of a variety of state and federal policies. What we can do to improve the situation seems to me to depend on what we foresee for the coming decade.

I suggest that in this period the federal government will demonstrate the following interests.

1. Promoting equity through compensatory aid for schools and student aid for postsecondary education. The central focus of federal policy, and its largest expenditures, will be to enhance equal educational opportunity.
2. Supporting specific educational programs that now require federal initiative—for example, programs for the handicapped, for vocational education, and for the arts and humanities.
3. Financing research and development designed to improve the educational process at all levels.
4. Assuring the national research capability in the arts, social sciences, and sciences by supporting research projects, by providing a steady flow of trained scholars and scientists, and by maintaining the institutional stability of high-quality research and teaching centers.
5. Adjusting, wherever possible, the federal programs of family income maintenance, day care, health and nutrition, and community development to improve the nonschool conditions of learners.

As for the states, they will have primary responsibility for the setting of educational and curricular policy and the overseeing of educational institutions and their programs. In the coming few years, the issues of high priority in this area will be the following.

1. Assuring reforms in school financing to achieve equity.
2. Enhancing the use of other institutions (business, government services, museums, libraries) that can augment the formal education programs.
3. Ensuring greater responsiveness to the "consumers" of education, including, naturally, the parents of schoolchildren.
4. Developing explicit policies for maintaining and strengthening the private sector in education, in the interests of assuring diversity and competition.
5. Developing new forms of planning, management, and accountability for both schools and postsecondary education. The goal should be decentralization to the greatest possible degree.

I have ended this listing with the words "decentralization to the greatest possible degree," meaning decentralization to the local school or college where educational variations actually take place. Many will say that the whole record of recent decades shows a trend away from the local to the state and the federal levels of government and that this trend is the very nub of the problem. And I doubt if there are many who would deny the point. The issue in my eyes is whether such a trend toward centralized bureaucratic power is inevitable or whether a differentiation can be made between what powers need to be centralized and what powers had best be left to local power and management. Another way of stating the question is to ask to what degree should we expect the next higher level of government to intercede if an issue of national interest is at stake.

My personal list of issues on which the next higher level of government should intercede includes the needs of minority categories such as the disadvantaged and the handicapped. It seems to me clear that the record of the decades shows that these categories have not had enough local impact to develop programs to meet their needs. They require the initiative and the support of higher levels of government, even at the risk of bureaucratic regulations that hamper the full freedom of local authorities and even at the risk of direct confrontations over issues of power among local, state, and federal authorities. More than a decade of such struggle has taken place, as John and Anne Hughes point out in their study of *Equal Education*. It is appropriate to quote from their analysis of the early days of Title I of the Elementary and Secondary Education Act of 1965, under the heading of "The States and Their Big Cities."

> Accustomed to going their own ways without any real interference from the state level, the agencies of the big cities (population of one million or more) posed major problems right from the start to their states in the aspects of control over local decision-making and enforcement of federal requirements—and subsequently to the Federal Government as well. These agencies were soon out to one-up the states on their knowledge of the amounts of money to be spent, the timing for receiving money, and the ground rules for its use. Since several of their superintendents, like Ben Willis of Chicago and Bernard Donovan of New York, had been prominent in the legislative process of E'SEA, they were not about to take a back seat to their chief state school officers. Also, complicating the state-local role was the fact that by 1965 all major city school agencies had been caught in the fiscal vise of rising budgets and eroding revenues, and they were well aware that state sources of revenue were closed to them. In combination, these conditions led to the confrontations over local decision-making and enforcement that upset the previous power arrangements. In these confrontations, Chicago led the way.

My personal involvement in the 1965 confrontation with Illinois and Chicago taught me the wisdom of understanding fully the powers involved in any such struggle and heightened my sense of the importance of being clear about where responsibility lay. Fuzzy definitions make for trouble, and, as my breakdown of federal, state, and local interests suggests, we still have a number of overlapping interests and jurisdictions. Their clarification by joint effort seems to me to be the highest priority now facing the national interest in education. But such an effort does not seem to have that priority in fact.

The dilemmas in school finance are clearly an example of where clarification must begin. And we must confess that we face serious obstacles at the very start in doing so. The following are some of them.

1. We simply do not know enough about the relation between fiscal support, the assurance of equal opportunity, and the full educational development of the child, to be confident that equal financing leads to equal opportunity. In effect we have to operate on the a priori assumption that it is probably more likely that equal financing will lead to equal opportunity than the opposite, even if we can not prove this.

2. Recent studies, beginning with James Coleman's famous report, have persuaded many of us that the schools are only a part of the overall educative forces in society and that real educational equity depends in good part on other social forces. How can one define these larger forces and their task? Is it our responsibility as educators to try to do so?

local schools to tax themselves if they so desire or, further, in re-

3. We cannot be sure that schools or school systems that are unusually well-financed and well-managed serve as the leaders for their less fortunate neighbors, raising quality by their example. Another way of saying this is that the "lighthouse" schools in reality may illuminate only their own or comparable districts and may not serve as beacons for others. Common sense suggests that competition between school systems can lead to improvement in the general level of quality for all. But I fear that there is relatively little evidence of a direct relationship. Once again we are forced to act upon a mixture of unproven assumptions and untested probabilities.

4. It is obvious that today's reality is very different from that of a decade ago. Then we were dealing with the problems of growth. Today we deal with the problems of decline in numbers of students, if not yet in actual dollars expended. Then it was politically possible to increase appropriations across the board and to argue for "levelling up" without necessarily restricting the efforts of those already at the top. Now we face a situation of more static budgets and the implied need of redistribution rather than of differential increase. The goal of equity may remain unchanged, but the social and political reality is very different. Is it still possible to afford the "lighthouse" school?

Granted these four difficulties that face us, what seem to be the policies that will avoid the most serious dangers of bureaucratic restraints on the freedom of local institutions and upon individuals and at the same time continue our push toward more equal opportunity?

I find no difficulty in supporting the principle that the richer should be taxed to support districts less favored financially. This policy is deeply imbedded at both the federal and the state levels of government. But the action in the coming decade toward equity in school financing will probably be at the state level. The cost factor in the use of federal tax powers to equalize financial support at state and local levels is so great—perhaps more than tripling the present appropriations—that for this reason alone active federal intervention much beyond its present level seems unlikely to me in the near future. Nor does it seem likely to me that the federal courts will soon find that there is a constitutional imperative requiring across-the-board equitable financing.

So the issue is in the hands of local and state government. And even granted the principle of differentiated taxation based on means, how far is it wise to go in actually restricting the ability of local schools to tax themselves if they so desire or, further, in re-

quiring that they reduce expenditures and distribute such funds to other schools that are without the capacity to increase their own expenditures?

We should not fall into the trap of assuming that this is a right/wrong issue, or one that has to be considered as a contrast between good and evil. We must rather choose between goods. And we also face the realities of the distribution of wealth in our society. If we cannot be confident of exactly what money buys in the way of education, I hope that precise equality of financial support behind each pupil is not *by itself* the only goal at which we should aim. We should aim in addition at differentiation between types of students and types of programs as these may seem sensible to us at any given time. Still further, we should give priority to the needs of variation in local schools, recognizing that the support of school programs by parents and community is an essential ingredient in their successful development. When combined, these aims do not necessarily lead to exactly the same financial support for each school, but they do lead to the need for a higher level of government to oversee the final result and to use taxing powers to reach the educational goals that have been established.

I do not find it easy to decide on whether any restriction should be placed on a school district to tax itself. I find myself torn between the goal of equity between districts and the goal of encouraging a close link between the schools and the community they serve. This last seems to me to carry more weight than the argument that well-supported "lighthouse" districts are necessary to lead toward even higher qualitative standards. Some freedom, therefore, on the part of the local district to set its own standard of support is defensible, though that standard must not be at the expense, in political reality, of equalization through state-wide taxation. In short some compromise between the two "goods" seems necessary, and I need hardly point out that such a compromise is the normal condition of school financing today. My own preference would be to put the emphasis on more state-wide equity in distributing tax funds, for the wide range between the schools with the most support and those with the least seems unfair and unconscionable in the majority of states today.

But the distribution of funds is, of course, by no means the whole story. The way in which the higher level of government sets its goals and the way in which it translates these goals into operating requirements are just as important, or perhaps more important. A study of developments in recent decades suggests that both federal and state governments have tended to adopt legislation that is too

restrictive, too demanding on the local units that are responsible for carrying out programs. And if the legislation is not precise, the executive branches tend to write regulations that are even more restrictive. It is easy to see why legislator and bureaucrat alike did what they did. The far harder job is to assure that the trend is reversed, that both legislation and regulation are written in more general terms, leaving a good deal of room for local decision. For the national interest in educational variation has reached a stage where a major change in implementation is needed. I would argue that it was necessary to insist, a decade or more ago, that attention be paid to the neglected groups. Both federal and state governments were right in taking the initiative. But times have changed. Constituencies representing such interests on state and local levels have gained power and experience. The time has come when they can be depended upon to insist successfully that their rights be respected. Power can be decentralized to a far greater degree than seemed possible only a decade ago, and educational variation can still be maintained and, where appropriate, increased.

To reverse the trend requires in practice a massive effort both to improve the use of planning at all levels of government and to decentralize management. I have the impression that a basic part of the federal legislation of the middle sixties in education—the reliance on planning—simply was never carried out. Local plans were to be reviewed at the state level, and state plans at the federal level. I can testify that at least one person hoped, perhaps naively, that once a plan had been approved, the educational unit of school or college would be relatively free to carry out on its own the intent of the law as it saw the law, in terms of its own plan. I said "naively," perhaps I should have said "stupidly," because that is certainly not the way matters worked out. The several levels of government have often not worked as partners but rather as competitors or even as adversaries. Plans were often neglected, and regulation became the primary method of intervention and control. There must be literally hundreds of district and state plans which, once approved, were put on the shelf and remain there.

Is it therefore stupid today to ask if the national interest in educational variation can *ever* be accomplished by a mixture of approved plans and flexible regulations (assuming the law permits)? There may be a majority today who would say that it is stupid so to argue, that these methods have tried and failed. I am probably in the minority in suggesting that the methods were never adequately tried, that the very process of consultation and negotiation between the several levels of government, before approval of plans, could

change the situation from adversarial to collaborative. It could result in more understanding by the several levels of government of each other's problems. It conceivably might lead to a clearer differentiation of the responsibilities to be undertaken by each level and a reduction of the areas of overlapping jurisdiction and of friction. By means of a regular review and regular updating of plans, changing circumstances could lead to changes in programs.

The use of planning in this way is unfamiliar to American education. As a nation we have tended to move in spurts in particular areas, without overall plans and without adequate attention to the effect of action in one area on other areas. The Buckley amendment, and some of the programs for the handicapped, exemplify this tendency. If the habit of planning and the habit of consultation between the several levels of government could be developed, we could reduce substantially what now seems to be a buzzing confusion of laws and regulations and conflicting responsibilities.

I realize, of course, that I am swimming against the tide, that despair about bureaucracy is the current fashion. Many liberals of a decade ago seem to have concluded that the best path to follow is that of de-regulation, of a kind of educational market competition rather than an effort to use the power of higher levels of government to initiate and supervise reforms. Our loss of confidence in the social sciences as dependable guides on which planning can be based is another factor in the present situation. One can only note ironically that planning seems to be more accepted in large corporations in the private sector than it is in the public. One has to note that in education there may be a shortage of qualified personnel and certainly very little experience on which to base future action.

But despite these drawbacks, I still urge that we give continuous collaboration in planning a serious try as an essential ingredient in improving federal, state, and local relationships. Without such an effort, I can only foresee continued friction and continued restraints by higher levels of government on the freedom of operation of schools and colleges. For it seems to me politically unlikely that there will be major changes in the near future in the use of categorical programs by federal and state governments. Such programs as the Elementary and Secondary Act seem too well-entrenched, as do the programs for bilingual education and for the handicapped. I think it would be wise, rather than seek to change these programs to something nearer general aid, to change the way they fit into the overall operation of schools and colleges. This will require the willingness of higher levels of government to permit variation in plans and programs. The ideal would be for higher levels, relying on

experience and confidence, to give wide latitude when the record showed that states or districts or institutions had demonstrated the ability and the means to carry out the intent of the law. I grant that such a policy seems far away today, but I see no reason why it should not become our goal.

The key is an agreement at all levels that decentralization toward freedom of operation at the basic unit—the school, the college—is needed. And that in turn means a willingness to accept variation and to pay the price and accept the criticism that goes with such variation. Over time, this means less regulation and more ex post facto auditing. If one believes, as I do, that all three levels of government will continue to play a part in education, and if one accepts the idea that variation is a desirable goal, then a new combination of planning, a new style in regulation, and far more flexibility in bureaucratic habits are needed. Only in this way can the national interest be effectively related to educational variation.

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4 School Finance Reform: Emerging Issues and Needed Research

Allan Odden

School finance and the inequities existing in state school finance structures have been researched throughout the twentieth century. As early as 1905, Cubberley[1] identified many of the basic elements constituting inequitable state mechanisms for allocating general state aid for public elementary and secondary schools. Those findings were further researched, and the development of new state education aid policies were conducted from the 1920s through the 1950s by numerous persons, including Strayer and Haig,[2] Mort,[3] and Benson.[4]

Beginning in the 1960s, a series of studies investigating the socioeconomic determinants of local school-district tax and expenditure policies was initiated.[5] These studies showed that, despite alleged state equalization aid programs, local school-district tax and expenditure policies could be explained by local school-district socioeconomic phenomena, such as median family income, property wealth per pupil, percent unemployed, median years of schooling of the adult population, and public school students as a percent of total population. The determinant studies were able to explain tax and expenditure inequities among school districts within a county[6] or state,[7] among central-city school districts across states,[8] among suburban school districts,[9] and between central-city and suburban school districts.[10]

Legal analysis entered the school finance research arena in the late 1960s and early 1970s. The pioneering work of Wise[11] and of Coons, Clune, and Sugarman,[12] building on the preceding decade's

determinant studies, led to the landmark *Serrano* v. *Priest* opinion of the California Supreme Court in August 1971. This decision stated that an education finance structure in which the quality of education opportunity was a function of local school-district wealth violated the Fourteenth Amendment of the U.S. Constitution. Although that decision was ultimately overturned by the U.S. Supreme Court in its March 1973 decision in *San Antonio Independent School District* v. *Rodriguez*, litigation has continued in state courts,[13] and legal research on school finance issues continues to help shape school finance reforms.[14]

With the *Serrano* decision as a catalyst, numerous studies of state school finance policies were conducted in the early 1970s.[15] Most of these studies focused on analyzing the relationships between school district tax and expenditure policies and local wealth and the development of more effective state equalization aid policies.

However, this time period also experienced the refreshing additional influx of economists and political scientists into school finance research activities. Thus, also at this time, school finance research began to include directly many tax issues related to school finance reform[16] as well as the politics of changing education finance structures. It was learned that, indeed, politics and education were inextricably linked,[17] that the politics of school finance reform were complicated[18] and that school finance changes were more likely to occur through legislative action than through voter referenda.[19]

Although fundamental school funding changes have been enacted in nearly half of the fifty states since 1970, education finance reform is not a once-and-for-all proposition. Indeed, the broad range of economic and political issues related to public education finance is not only making this public policy issue increasingly complex but also is broadening the issues involved in and characterizing school finance reform activities. The remainder of this article discusses six relatively new issues involved in current debates over education finance policies, notes the research related to them, and summarizes the areas for which additional research is needed.

Impacts of School Finance Reform

Although nearly twenty-five states have enacted major school finance reforms during the 1970s and although these reforms have received national acclaim by legislators, scholars, and citizens, very little research exists on the impacts of these reforms. Such research

is vitally needed. Rhetoric has far too long characterized the substantive issues surrounding education finance policies, and recent advances in legislatively enacted school-funding changes need to be researched vigorously to determine empirically whether historical inequities have been remedied.

Descriptive information on recent school finance reforms are available in publications from the National Conference of State Legislatures (NCSL) and the Education Commission of the States (ECS).[20] Callahan and Wilken[21] have recently produced an overview of the effects of new school finance laws in seven states—Florida, Illinois, Kansas, Michigan, New Mexico, Utah, and Wisconsin. This study, using data for the year before and the year after the reforms, found that the school-funding changes in these states reduced expenditure and tax rate gaps among school districts within states and reduced absolutely the property tax burden in many states. The study also found, however, that state aid programs of the power-equalizing or guaranteed tax base type were the least effective in reducing expenditure-per-pupil differences. Hickrod[22] has produced a detailed study of the fiscal effects of the Illinois reform, and Phelps[23] has done a similar study for Michigan. Beyond these studies, however, very little analytic material exists.

Additional research is needed to determine the long-run fiscal effects of various kinds of school finance reforms. Of particular interest are the relative fiscal impacts of power-equalizing (or guaranteed tax base, or guaranteed yield) programs versus foundation or other kinds of school finance state aid structures. The National Institute of Education (NIE) has recently awarded a grant to the Rand Corporation to investigate these issues further, but data on the fiscal impacts of school finance are needed from more than just one additional study.

The programmatic effects of school finance reform also need more research. Although Kirst, as well as Barro and Carrol, found that increases in state aid are used primarily to expand education programs,[24] the programmatic effects of school finance reform is virtually an untouched area. The effect of reforms on student outcomes, moreover, is completely unknown. Demands for information in both these areas are increasingly being made in state legislative halls; answers, if only partial, are needed.

Information on the governance effects of school finance reform, now also unknown, will be provided by one NIE study being conducted at the Stanford Research Institute and another NIE-supported effort at the National Urban Coalition on school site lump-sum budgeting. But the governance implication of school

finance reform and the effects of fiscal centralization on local control are also areas in need of additional research.

School District Fiscal Behavior

Historically, inequities in state school finance structures have been characterized by the relationships between school district total assessed valuation per pupil and school tax-rate and expenditure levels. As economists have entered the school finance arena, however, definitions of what constitutes school district wealth have broadened. The composition of the property tax base as well as its total size have been shown to be important, and the precise structure of state equalization aid formulas is now known to have significant effects on school district fiscal behavior.

Bowman,[25] Wade[26] and Ladd[27] have shown quite conclusively that the composition of the property tax base influences school district decisions on expenditure and tax-rate levels. All these studies have indicated that the greater the nonresidential component of the property tax base, the higher the expenditure levels. This occurs because, for each dollar of education revenue raised, citizens in a district with a concentration of nonresidential property pay proportionately less than taxpayers in a primarily residential school district. Although this phenomenon is the result, in part, of a tax-rate illusion—that some amount of the property taxes on nonresidential property is shifted to residents—it nevertheless has been documented empirically by these studies.

Grubb and Michelson[28] and Feldstein[29] have carried this line of research further in examining wealth and price effects on school district fiscal decisions caused by the composition of the tax base and the income of the school districts as well as the nature of the state general aid formula. They have shown that matching grants, of which power-equalizing and guaranteed tax base programs are examples, have dramatically different effects depending on the percent at which state aid matches local revenues.

These issues are important for a number of reasons. First, wealth neutrality in school finance structures can be created only when the composition of the tax base as well as the income of school districts are somehow taken into consideration in designing state equalization formulas. Second, these studies indicate, at least partially, that wealth neutrality may be accomplished only if nonresidential property is removed from the local tax rolls and taxed at the state level; this would be a radical change in most states and has been suggested in only heavily veiled terms in school finance reform

activities. Third, the level of state matching aid may be more important than previously thought.[30] Fourth, models of school district fiscal response to changes in state aid structures are needed for school finance computer simulations to enable them to predict more accurately the local effects of alternative state aid structures as well as the extra cost to the state.

NIE-supported studies at ECS and the Rand Corporation are currently being conducted on these issues; a state-financed study is also being carried out at the University of Delaware. Again, however, these are new issues in school finance for which some partial results have been produced but for which much more work needs to be done.

The Impact of School Finance Reform on Urban School Districts and Minority and Poor Children

The recognition of the social and economic changes that have occurred between central cities and their suburbs and the quest for equal education opportunity for minority and low-income children that began in the 1960s have had significant effects in the school finance arena. Berke and Callahan[31] were quick to note that many standard school finance reforms would result in decreased state aid to many central-city school districts. Callahan, Wilken, and Sillerman[32] demonstrated that alternative measures of school district wealth, incorporating income as well as property measures, were more comprehensive and more beneficial to cities than the standard assessed valuation of property per pupil. More recently, Odden[33] has made the same points. Levin[34] and the Potomac Institute[35] discussed the higher costs of education in central-city schools; Chambers, Odden, and Vincent,[36] using basic economic techniques, have shown that cost of education indices are the highest in central-city school districts. Finally, Bothwell, Johnson, and Hickrod[37] have analyzed in detail the effects on central cities of many recent school funding changes. On the other hand, Netzer[38] has challenged some of the claims for central-city "municipal overburden," showing that while some cities may be overburdened others may be "underburdened."

The impact of school funding structures on central-city school districts is clearly a topic that will pervade school finance reforms as well as school finance research. Are all central cities alike? If not, what are the critical differences? Is municipal overburden a viable concept? How precisely do noneducation demands on city budgets affect the ability to support public education? Can alternative mea-

sures of school district wealth in state aid formulas be defended as rational? What is the best way to compensate city school districts with concentrations of special education, low-income, and minority students? These are questions that do not have definitive answers but will be affecting school finance in the future.

The relationships between school finance structures and minority and low-income students is another relatively new issue. Minority and low-income students often are not concentrated in property-poor school districts.[39] As with city school districts, therefore, standard school finance reforms may adversely affect school districts with many minority and low-income students. In addition, the fiscal characteristics of school districts that have concentrations of Spanish-surnamed students are often different from those with concentrations of black students.[40]

The interplay between school finance and minority education is receiving close attention in four states—California, Colorado, New Jersey, and Texas—through projects funded by the National Urban Coalition. NIE has also awarded the Intercultural Development Research Association in Texas a contract to study the effects of school finance reforms on minority and low-income students in six states: California, Colorado, Michigan, New Jersey, New Mexico, and Texas. For a number of years to come, the impact of school finance programs on minority and poor children will be given increased attention.

Cost of Education Indices

It is well known that the cost of providing a given level of education services differs among regions and school districts within a state. The identification of differential education costs hinges on separating supply (cost variables) from demand (quality variables) and, holding quality constant, on calculating the cost differences caused by supply factors.

The quantification of cost differences has assumed increasing importance among the states, and research is proceeding in this area. The early work on the subject, typified by Wasserman,[41] did not rely on economic theory for its analysis and either made no attempt to separate demand/quality variables from supply/cost variables or essentially made arbitrary assumptions on demand versus supply issues. Recently, Brazer,[42] Frey,[43] and Grubb[44] attempted to quantify differential education costs utilizing basic supply and demand economic theory. Although Brazer specified supply and demand variables, he did so without explicitly delineating his eco-

nomic model of optimization of local school resource allocation. Thus, in the end, he was forced to make arbitrary decisions on which variables to place into which category. Frey's work found that alternative wages were the major determinant of differential teacher salaries. Although he explicitly separated supply and demand variables, his alternative wage variable is essentially a labor-market regional variable and thus provides limited new insights. Grubb's work is the most thorough of these three studies; he clearly identified his optimization model and thus was on firm ground in separating supply and demand variables.

The above three studies, however, used the school district as the unit of analysis rather than individual teachers or other staff persons; they did not account explicitly for the impact on costs of different student needs; and they did not control for cost constraints caused by teacher tenure and seniority laws in school districts with declining enrollments.

Chambers, Odden, and Vincent,[45] in a study of cost differentials among school districts in Missouri, used a sample of teachers as the unit of analysis in quantifying differential teacher costs and controlled for student need differences in quantifying total differential costs of education. Though additional research is needed, as indicated in the Missouri study, the development of cost indices may also produce pupil weights for special and compensatory education, quantification of economies and diseconomies of scale, and the effect of collective bargaining on teacher salaries.[46]

NIE will be supporting additional research on cost of education indices, and Chambers, Odden, and Vincent will be conducting further research on the issue in Missouri during 1977. Additional states, for example, California, Illinois, and New York, may also fund cost-index studies as part of recently started major school finance studies.

Categorical versus General State Aid

With expansion in numbers as well as financial resources, an emerging issue in school finance is the relationship between state categorical aid programs and state general aid programs. There are two basic issues involved. The first concerns the equalization or wealth neutrality aspects of state categorical aids. Recent evidence suggests that wealth-related inequities can creep into the categorical aid structure if the aid is allocated on a flat-grant or excess-cost reimbursement basis.[47] More wealth neutrality results when an equalization formula is used.[48]

Although there are unique characteristics of each of the various categorical educational programs, the rationale for the use of equalization formulas for state general aid holds, in the main, for categorical aid as well. In the total picture, moreover, equalization gains accomplished through the general aid program can be offset, in some cases dramatically, by wealth inequities in the flow or nonflow of aid for special education, vocational education, transportation, capital construction, and debt service.

In this light, the increasing utilization of pupil-weighted programs, in which students needing extra educational services are given a weight higher than the "standard" student, with state aid being allocated on the basis of the number of weighted students through a general equalization formula, may be the most promising mechanism for accomplishing wealth neutrality goals for both categorical and general aid programs.[49] Leppert currently is conducting, under NIE sponsorship, further investigation of pupil-weighted programs. Similar studies will be conducted in at least Missouri and West Virginia over the next year.

The second important aspect of general versus categorical aid is simply the increase in both state and local dollars for categorical services. In some states, categorical finance demands exceed—absolutely—the state aid for general purposes.[50] In most states, moreover, the increase in the costs of categorical aid programs, especially special education, doubles and triples in less than half a decade. The point is simply that the rapid proliferation of categorical services has put increased strains on the state budgets and that future school finance analysis should analyze in a more wholistic manner both state and categorical aid programs.

The Federal Role in School Finance

Although there was activity in the early 1970s that indicated the federal role in school finance might be expanded greatly, that role has remained relatively stable for the last decade, focusing on a few selected programs.[51] Little analysis exists on the nature of federal aid in school finance structures. Berke and Kirst,[52] investigating the 1967 federal aid flow, concluded that federal aid, especially Title I of the ESEA, was equalizing on the basis of median family income and related to need as measured by concentration of minority students. Ginsburg and Kallelea,[53] analyzing 1970 federal aid, concluded that Title I flowed to districts with concentrations of poverty students, that impact aid under P.L. 874 was equalizing with respect to property wealth, and that other discretionary federal funds

flowed most heavily to city school districts and districts with the greatest concentration of poverty students. No other major studies of federal aid exist.

Yet there are rapidly emerging problems with federal aid programs. In many states, school finance reforms compensate low-property-wealth districts; unless federal impact aid under P.L. 874, which also goes to low-wealth districts, can be included in the state allocation mechanism, it can have a disequalizing impact.[54] There are increasing problems with the comparability requirements of ESEA Title I aid and state-funded programs of compensatory education. States are also concerned with the Federal Education of All Handicapped Children Act, P.L. 94-142, that allocates aid directly to local school districts. Currently, this new federal law ignores local school-district wealth as well as the degree to which sufficient state funds have been made available for special education services.

There is a great need for research on the precise nature of the intergovernmental aid frictions that exist between federal and state aid programs in similar areas. The nature of the problem will undoubtedly differ from state to state, and, thus, the nature of federal policy alternatives may have to be differentiated among states. While federal policy has erred in having developed to an excessive degree on the basis of the worst policies among the states, it is also true that some states do need a federal prod and that all states should not be given federal block grants which they decide unilaterally how to allocate. Over the next few years, the federal role in education finance will come under close scrutiny. Sound policy research will be needed to help develop new federal policies on the basis of a firm analytic foundation.

School Finance and State/Local Tax Policy

Historically ignored, the symbiotic relationships between school finance and state/local tax policies are being increasingly recognized among school finance scholars and state policymakers. All three of the most recently conducted state school-finance studies included detailed studies of the state and local tax structure used to finance education.[55] There are four major issues relating school finance and tax policy.

The first is the equity, in terms of the burden by income class, of the education tax structure. State tax structures, in general, are regressive overall, the progressivity of state income taxes being offset by the regressivity of the consumption taxes.[56] The hottest debate in tax incidence analysis, however, concerns the burden of the

property tax. This tax has long been claimed to be regressive,[57] but recent analysts have asserted, on the strength of new economic theories, that the tax may, in fact, be progressive in incidence.[58] But research in four states shows that, regardless of theoretical perspective, the property tax places a regressive burden on low-income families and individuals.[59] Clearly, however, additional research on tax incidence is needed that will investigate not only statewide incidence but incidence within and among different regions in a state.

A second tax issue relates the equity of the education tax structure to its revenue-raising capabilities. Regressive taxes tend to be inelastic with respect to personal income; progressive taxes tend to be elastic. Since education expenditures tend at least to keep pace with growth in personal income, an inelastic education tax structure will produce annual education revenue gaps which can be closed only by cutting school programs or increasing tax rates.[60] This issue has received very little attention, and greater knowledge of it and the development of policies to deal with it are subjects in need of more research.

The third issue is that of school finance and comprehensive tax reform. States are increasingly enacting circuit-breaker programs of property tax relief to reduce property tax regressivity.[61] Expanded circuit-breaker programs that limit property tax payments as a percent of income for all low-income households have been enacted as complementary aspects of school finance reform in at least three states—Michigan, Minnesota, and Wisconsin. The interplay between circuit breakers and fiscal decisions of school districts with concentrations of low-income households is an important area for needed research. In addition, the net impact which different sources of property tax relief have on income classes needs to be examined more closely.[62]

The last issue is the emerging interest in the redistributive aspects of public education, an issue which requires the linking together of the expenditure and tax sides of school finance. This issue, which has been researched recently in New York[63] and may be analyzed in California, is one of the new questions that may come to be asked of the total education finance structure.

Conclusions

The above represent some of the most pressing research needs in school finance. There are clearly other important issues: collective bargaining, declining enrollments, the changing age-patterns in the

country's population, and so on. School finance today embraces a wide variety of issues to which the disciplines of economics, political science, law, and sociology must be applied for analytic research and policy development. Even though school finance today is an increasingly complex public policy area it is refreshing indeed to see the number of first-rate scholars from many fields who are applying their skills and training to important research issues in school finance. If the progress in school finance reform during the last decade can, at least in part, be attributed to the influx of these new analysts, the latter half of the 1970s and the 1980s should produce even greater advances.

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5 The Public Policy Context of Education Finance

James A. Kelly

Too much of the popular discussion about education finance has centered on questions directly related to recent state finance reforms, a narrow approach that risks overlooking broader aspects of the politics of public education, and, more generally the politics of public affairs that set the parameters for school financing decisions. It is with the broader approach that we need to concern ourselves. Different approaches to financing schools reflect different conceptions about the nature of education and about the goals schools exist to serve. A significant portion of the ambiguity inherent in school finance policy is a product of different value judgments about education and its place in the public finance system. My intent in these comments is to discuss the increasingly fragmented and conflictive politics of school finance in the context of the broader domains of public finance and public policy, and to comment on differences that have emerged during the 1970s between two "networks" of people and groups interested in fairer school financing programs.

The public education system alone consumes about $60 billion of public funds per year, which constitutes the largest single expenditure category in all state and local government and the second largest category of government expenditure, excluding only national defense. This education system is part of a total public finance system and should be looked at in that way. Education is only one function of government. As such, to obtain and allocate public funds it necessarily competes with other functional areas,

and also competes in the general political system against groups opposed to new taxes. There are even new forms of competition *within* the education sector. Amid this larger framework, the politics of education is characterized by much more conflict and fragmentation than it used to be.

The sources of conflict and fragmentation create a context within which disagreements about education finance, and about the values which underlie those disagreements, are expressed and resolved. First of all, there is far more fiscal conflict than there used to be between the special governments of education (e.g., local school boards) and the general governments of municipalities. This is reflected nowhere more clearly than in the flow of federal aid to local governments in this country. In the past fifteen years there have been increases of federal aid to local school districts, primarily through categorical grant programs. Despite these increases, federal aid still constitutes only 7 or 8 percent of school monies—totalling about $5 billion per year. During the same period, however, municipalities continued their separation politically from education and successfully fought for the $6 billion per year general revenue sharing program with its proviso that revenue sharing not be used by municipalities for public education. Municipalities also receive $6 billion per year from the community development program and billions more in federal manpower training funds, which are further evidence of the go-it-alone political base from which educators compete for funds. This separation is now deeper than it was fifteen years ago, and I would be hard pressed to make the argument that it is a good thing for education.

A second way in which the politics of education is more conflictive than it used to be concerns the shrinking proportion of citizens and taxpayers willing to tax themselves for education services. The long-term trend in taxpayer support for education, reflected in tax elections in local school districts, is pessimistic and has been for over ten years, notwithstanding continued successes in a limited number of suburban and rural school districts. This is partially a function of the breakdown of the long-standing parent-teacher lobby. School administrators and parents used to consider it their duty to try to raise teacher salaries in order to improve the quality of education in their school district. They could thereby compete more effectively for new teachers. A sense of pride in their local schools dictated that parents cooperate with school officials in these matters. The view of taxpayers toward school expenditures today has changed. There is now a more adversarial attitude, partially as a result of demographic trends. As the proportion of the population

who are parents with children in school decreases, the proportion of taxpayers who have a less direct stake in education increases.

A third kind of division separates teachers and parents. Within education there no longer exists the kind of parent-teacher collaboration and cooperation that used to permeate both local and state politics of education finance. Parent-teacher relations in Australia provide an interesting contrast. Australia's system of education is state-controlled and financed by state and federal governments. At the national level the parents' union and the teachers' union work in very close partnership. Even though the Australian Federation of Teachers is vigorously employee- and benefits-oriented, parents and teachers work closely together on many political issues. They hold meetings; they know each other; they make compromises; they lobby together; they see the world in similar ways. While they may differ now and then, they work together effectively on issues of common concern, most notably their efforts to obtain more resources for education. And although the present conservative government (Liberal Party) in Australia has reduced spending for almost all domestic programs, it has not only not reduced primary and secondary education spending, but increased it by 15 percent last year. By comparison, parent-teacher collaboration in the United States is a bygone political phenomenon.

A fourth dimension of conflict and fragmentation in education finance is the increasing involvement of courts, legislatures, and governors. Increasingly, courts are willing to invoke constitutional doctrines of due process and equal protection to aid plaintiffs in cases involving such issues as bilingual education, education for the handicapped, sex discrimination, race, and equity in school finance. These issues touch the most tender nerves of educators. There is no indication of a reversal in this trend toward an expanded role for courts as mediators of disputes about the law and its application to over forty million citizens who happen to be full-time public school students.

Similarly, during the last fifteen years, state legislatures have begun to behave as if they are indeed a separate branch of government. Legislators argue that they no longer should be dependent on the state teachers' association or state department of education for all their information and that they ought to have their own independent capability to gather and analyze information. Increased staff and data processing capability, longer sessions, better pay, and more interim study committees are all a part of legislatures' efforts to enhance their capacity to deal with issues independently of the executive branch. This trend is regarded as a progressive reform by

most observers of state governments. Whatever its evaluation, the trend has implications for the politics of education finance. Formerly only a few legislators understood education finance bills; these few—supported by the state education lobby—would carry their colleagues along. Most legislators did not have any way of predicting the impact of proposed school finance changes on individual school districts. The days when a major legislative dispute over school finance methods could be settled on a "trust me" basis are fast fading.

Governors, who used to sit back in an essentially defensive posture and wait for the education coalition to present proposals, now too are beginning to decide about education policies without their previous dependence on advice from teachers' groups. In ten or fifteen states each year, governors propose their own education finance programs and lobby on their behalf throughout the legislative session.

A fifth way in which the politics of school finance has become more conflictive involves the persisting cleavages among urban, suburban, and rural interests. In large part, these cleavages reflect race-related tensions in our society. There never has been what might be called a love affair between urban, suburban, and rural school districts. In the 1920s and 1930s city school systems, numbered then among the "lighthouse" districts, were so well-off that restricting further increases in their spending was the problem discussed by those familiar with school finance issues. Most of the body of law enacted to restrain city districts is still in effect despite the fact that urban conditions are drastically different today. Suburban areas today have amassed enormous political power which they use to advance suburban interests. It has been a long time since New York's Westchester and Nassau County suburban school districts (which have de facto control over New York State school finance and whose interests are closely guarded by friendly legislative leaders) persuaded their legislators that they ought to change the state's school finance plan to benefit New York City or Buffalo! It is simply inconceivable that such political altruism could happen.

A sixth source of conflict in the politics of education finance relates to special categories of education funding. The issue is usually raised by groups who believe that local districts have not met special needs of special groups. Members of such groups seek to persuade state legislatures and the Congress to pay special attention to their problems. The fact is that legislatures don't create programs just for the fun of it. They do it because someone exerts pressure.

For the most part, legislators do what they think their constituents want them to do. This trend toward categorical financing has advanced to the point where the traditional local and state school aid battles will no longer be the fundamental framework of the politics of education finance. Taking its place will be a functionally fragmented but vertically integrated political system that operates from the local all the way to the federal level to maintain categorical aid programs. In the vocational education system, for example, close linkages already exist between major local recipients of vocational education money, the state vocational education bureaucracy, and relevant federal offices. A similar coalition has linked various constituencies of aid for the handicapped. Under this approach special interests at all three levels of government work closely with each other, with a concern for their particular interest, but not necessarily for education generally. At the state level there is open competition right now between this new lobby for special education interests and others who want to equalize the general school finance system. There is just as much competition among these various education interests in many states as there is between education and highways. The implications of this trend call for much closer attention than it has as yet been paid by educators and political scientists.

All of the sources of conflict and fragmentation enumerated above reflect an overall decline in public enthusiasm for public education and the demise of the old pattern of consensus politics around education issues. In addition, persons who attempted to articulate education issues and problems in the last ten or fifteen years may have been guilty of overpromising. Certainly, the education research community has vastly overstated the capability of its theoretical base to produce knowledge which can serve as the foundation for education policy. This is not an "anti-intellectual" or "anti-education-research" statement. Indeed, the argument needs to be made for *more* funds for education research and for a longer-term political commitment to basic research. But experiences the past decade with, for example, the work of James Coleman and Christopher Jencks demonstrate the potential difficulties inherent in making hasty judgments about the policy implications of education research. The system for interpreting the knowledge base to policy makers and to the media is primitive. Professors, foundation officials, educators, parents, and school board members all suffer because people like Daniel Patrick Moynihan and Richard Nixon became the key spokesmen who explained to the American people the ways in which education was good and bad, the ways it "works"

and "doesn't work." Such politicians should get better advice from national networks of scholars, teachers, administrators, school board members, and chief state school officers. The future ability of these groups to win additional resources for education will depend in part on their ability to reestablish in public forums their former primacy as spokespersons for education.

At this point I would like to turn to the relationship between the proponents of reform in school finance and the educational administrators and education professors who form the traditional school finance community. New kinds of people have become interested in education finance issues in the last few years. Within the field of school finance in the early 1970s, two somewhat separate groups, or networks, have emerged. One group, the "traditional" school finance community, is composed of school administrators, state department of education school finance specialists, and school finance professors in state universities. This group was nurtured through the 1950s and 1960s by the NEA's Committee on School Finance and later by the USOE-sponsored National Education Finance Project at the University of Florida. The intellectual roots of this group are in schools of education, and its constituency is primarily educators. The "reform" community, on the other hand, is more broadly composed. While some—this writer included—have public school teaching and administrative experience and are affiliated with colleges of education, many others are law professors, economists, political scientists, legislators, public interest attorneys, members of racial minority groups, and others disenchanted with fifty years of structural status quo in state-local fiscal systems for education. Reformers have tended to help plaintiffs sue state officials long allied with the traditional school finance network.

The reformers are people who started believing, in the late 1960s, that there was no way to achieve a truly equalizing finance system through the political techniques used by the traditional school finance practitioners. Existing state finance plans were too firmly entrenched to yield quickly or easily to change. Therefore, reformers engineered an "end-run" which relied primarily on a strategy of litigation and on both the tangible and intangible effects of litigation. Reformers worked directly with governors, legislators, and aggrieved citizens who shared their willingness to tolerate the agonies of years of litigation.

The successful movement that emerged is not anti-education; there is no evidence that fewer dollars finance schools in reform states than in unreformed states, or that reformed states spend less

than they would if they had not undergone a reform. The reform movement lives within the existing political structure and is not promoted by antischool forces. Rather, the proponents of school finance reform are people who have taken a new look at how school finance plans operate, who feel strongly that school finance plans must function more equitably, who possess and apply a diverse repertoire of both political skills and modern analytical techniques drawn from the social sciences and the law.

Disagreements between "reform" and "traditional" school finance people arise as often from differences of technique, political strategy, and style, as from goals. Clearly, there is a gap in communication and understanding between these two networks, both of which are fundamentally committed to ideals of quality education and equal education opportunity. We must acknowledge this lack of communication if we are to correct the misunderstanding and to eliminate the gap. Traditional finance experts who scoffed at the reformers' legal strategies must be willing to suspend their belief that it is all a perverse conspiracy of lawyers and foundations; reformers, too, must avoid the too-easy notion that educational administrators are the natural enemy of school finance reform. The present climate of misunderstanding and suspicion can be overcome only if both sides prove willing to talk meaningfully with each other.

In American education there is a wide spectrum of values and interests. Agents of reform and school practitioners must spend more time talking to each other about the political and social structures which impinge upon public school finance in the 1970s. Dilemmas exist which we must all face; together we must seek their resolution. The ability of education practitioners to continue to control education policy, and the ability of both reformers and practitioners to win additional resources for education in the competition of all public services for public dollars ultimately may depend on each attempting to understand and accept the other, respecting differences of orientation and style, and collaborating with a mature political sophistication when objectives are indeed the same.

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6 *Serrano* and School Finance Reform in California

ED149478

Gerald C. Hayward

On December 31, 1976, the California Supreme Court, on a 4 to 3 vote, issued its latest decision in the *Serrano* case. This decision, known as *Serrano II*, affirmed the court's original 1971 decision and a subsequent Los Angeles superior court decision by Judge Bernard Jefferson.

My task is to describe California school finance reform after *Serrano*. Since *Serrano II* was a 4 to 3 decision and *Serrano I* was a 6 to 1 decision, it might be a fair assessment to say that, with the second decision, California moved two judges closer to compliance. The real question, of course, is just how "reformed" California school finance is.

Before I review the progress California has made since *Serrano I*, it may be useful to establish some bases for judgment. The pre-*Serrano* world of school finance produced some truly gargantuan differences. In the 1970–71 fiscal year, in California's 1,100 school districts, the ranges indicated in Table 1 existed.

While these extremes overdramatize the real differences which existed among districts in those years, the disparities, even between neighboring districts, were frequently gross. In Alameda County, near Oakland, Emery Unified could spend $2,448 per ADA, with a $2.66 tax rate, while its neighbor, Newark Unified, struggled to raise $719 per ADA, with a $5.69 tax rate.

The courts, in all three of the court decisions mentioned here, found that unequal district wealth, as measured by assessed value, produced unequal educational revenues and that unequal revenues

Table 1

	Low	High
Assessed value/ADA[a]	$ 75	$1,053,000
Tax rate[b]	$ .39	$ 7.83
Expenditure/ADA	$420	$ 3,447

[a]Assessed value = ¼ of market value
[b]Tax rates are levied on each $100 of Assessed Value.

produced unequal educational quality. Having further found that education was a fundamental interest, the courts declared that unequal educational opportunity was not permitted by the California Constitution and that the California public school financing system was therefore unconstitutional.

The courts gave the legislature until September 1, 1980, to meet the following specific standard: the reduction of any wealth-based expenditure differences to substantially less than $100 per pupil. The decisions found three features of the state's system to be particularly onerous.

First, the failure of the state to correct for wealth-based disparities in expenditures.

Second, the failure to eliminate the basic aid provision (a $125-per-ADA flat grant statewide). Basic aid is distributed equally, regardless of district wealth, and actually exacerbates wealth-related disparities.

Finally, failure to prohibit permissive and/or voted tax rate increases. The former, which require only board approval, and the latter, which require voter approval, both result in greater expenditure variations.

Before potential remedies and actual reforms are discussed, it may be beneficial to review some popular (at least in California) misconceptions relating to the three decisions.

1. *Serrano* does not require substantially equal expenditures for all pupils in California schools. Probably the most commonly mistaken interpretation is that there must be equal educational dollars per child. The court clearly permits unequal expenditures either through state categorical aids or through equalized add-ons, as long as the disparities are not related to the wealth of the district. The court specifically permits district power-equalizing which permits differences in expenditures as long as the differences are generated

by different effort (tax rate) among districts. If there is equal expenditure for any given tax rate, the constitutional mandate is met.

2. *Serrano* does not require additional educational dollars or mandate any specified "quality" level of instruction. Judge Jefferson pointed out, "if uniformity of treatment were to result in all children being provided a low quality educational program, or even a clearly inadequate educational program, the California Constitution would be satisfied. . . . It is only the disparity in treatment between equals which runs afoul of the California Constitutional mandate of equal protection of the laws."

3. *Serrano* does not prohibit the use of the property tax as a method of funding school finance. It is the uncorrected inequity in tax-rate yield between districts which the courts found intolerable.

Remedies

Judge Jefferson, while not specifying a particular remedy, did provide the legislature with a list of alternative funding mechanisms that he deemed "workable, practical, and feasible." Unfortunately, the judge failed to include "legislatively passable" in establishing his list, and the legislature and governor, at least to this point, have been unable to put together a Serrano package which meets the rigorous standards set forth by the court. Judge Jefferson included the following alternatives to the current system. I will try to indicate the political feasibility for each of the options.

1. *Full state funding.* California has a long history of avid advocates for local control. The full state funding model is perceived by the champions of local control to be a serious threat to their autonomy. In the last ten years only one full state funding bill has even been introduced in the California legislature. That measure received so much adverse reaction, especially from legislators representing small school districts, that it was quickly dropped.

Another problem often cited in connection with a full state assumption model is the massive tax shift which would occur. Eliminating local revenues for education would necessitate a $4.2 billion increase in state revenues for the initial year of implementation. This would be equivalent to a 100 percent increase in the state sales tax or a 125 percent increase in the state personal income tax. In addition, a 6 percent inflation adjustment would cost $350 million per year. This massive and controversial tax change would produce only the amount the present system currently costs and would require massive cuts in the expenditures of high-wealth districts. (For effects on sample districts, see Table 2.) One could reduce the

negative impact of a pure state funding model by adopting a statewide property tax. Business, agriculture, and high-wealth school districts have long defeated such proposals. No bill containing such a provision has successfully passed out of more than one legislative committee.

Table 2

Impact of Full State Assumption
on Selected Unified School Districts
for 1975–76

	Revenue Limit/ ADA	Revenue Limit State Assumption	Revenue Limit Change/ ADA	Total Dollar Change
Baldwin Park	$ 990	$1,149[a]	+$159	+$ 1,829,000
Beverly Hills	2,011	1,149	− 862	− 4,943,000
Emery	2,819	1,149	− 670	− 414,730
Long Beach	1,180	1,149	− 32	− 1,820,000
Los Angeles	1,051	1,149	+ 98	+ 57,800,000
Oakland	1,188	1,149	− 40	− 2,081,000
San Francisco	1,496	1,149	− 341	− 22,576,000
San Lorenzo	994	1,149	+ 154	+ 1,771,000

[a]State-wide average revenue limit for unified districts apportioned to all unified districts.

2. *District reorganization.* The court suggests that school district boundaries in California could be consolidated and realigned to equalize assessed valuations among the newly reorganized districts. If one ignores the enormous technical problems caused by constant shifts of population in a highly mobile state, the mere idea that the California legislature could eliminate 500 school boards and reapportion the rest is ludicrous. The California legislature can't reapportion itself, let alone over 1,000 school districts.

3. *Split roll.* This mechanism, which removes commercial and industrial property from local taxation for school purposes and causes taxation of such property at the state level, would result in a large-scale reduction in assessed value differences between districts. However, significant disparities would still exist. Although there have been a myriad of split-roll proposals in the last few years, none has been successful, primarily because of the opposition of business and agricultural interests. An additional problem with the split roll is that it requires a constitutional amendment because Section 1, Article XIII of the California Constitution spec-

ifies that all property in the same taxable area must be taxed at the same rate.

4. *Vouchers.* After three years of intensive effort, numerous special and select committee hearings, thousands of hours of staff and lobbying work, the California legislature passed a "voucher" bill which really wasn't a voucher bill but an alternative school bill. This measure, enacted in 1972, was to be effective in no more than five school districts state-wide. Only one school district in the state has implemented its provisions. This proposal hardly qualifies, in my judgment, as "workable, practical, and feasible."

5. *District power-equalization.* In terms of political feasibility, this method is probably the best of a bad lot. Some form of power equalization or wealth sharing will be a requirement if the legislature is to respond positively to *Serrano*. The district power-equalizing approach, which has as its central feature the guarantee of equal dollars for equal tax rates, either requires a substantial infusion of state dollars or substantial "recapture" of funds from high-wealth districts; these funds are then shared with low-wealth school districts.

The former alternative is not popular with California's governor, who continually reminds us of his proclivities in these matters by saying "I'm not conservative, I'm just cheap." The second alternative, recapture, is not popular with the representatives of high-wealth districts, particularly San Francisco. For those unfamiliar with California politics, San Francisco, a high-wealth school district with very high assessed value per pupil, has historically enjoyed political power beyond its numbers in the legislature. At one time, the speaker of the Assembly, the majority floor leader in the Senate, and the chairman of the Assembly Revenue and Taxation Committee, all represented San Francisco. It was, and still is, extremely difficult to achieve passage of a school finance bill which adversely affects San Francisco, whether on the expenditure or tax rate side of the equation. So far the district power-equalization proposals, and there have been a half dozen or so, have failed passage.

6. *Combinations of mechanisms.* Needless to say, if all of the above are politically unfeasible, a combination of any two or more of them will be even less politically feasible.

Compliance Problems

I have just reviewed a wide array of court-proposed remedies. With the exception of an embarrassingly modest power-equalization feature in the most recently enacted school finance

bill, none has even come close to enactment. The reasons for the legislative inability to fully comply with the court's mandate are numerous and, at least in my view, not without substantial justification. The major problems can be reviewed quickly.

1. *Trick or Treat.* There are several alternatives for compliance. To greatly oversimplify, one could meet the court's mandate by "levelling up" to the expenditure of the highest-wealth district. Since the highest-wealth district spends $7,000 per child, this alternative would cost the state an additional $26 billion, which would represent almost triple the state's *total* budget for all purposes. If a more reasonable district, say San Francisco were selected, levelling up to that standard would represent about a $4 billion increase in school expenditures. Doubling the California income tax would just about pay for this expenditure.

If levelling up is too expensive, levelling to the mean is the other extreme. The existing resources of the state could be redistributed, "homogenizing" the schools at the average expenditure level. That would produce full compliance, tax increases, and expenditure reduction in a large number of districts, while producing tax-rate reduction and expenditure increases in another large number of districts. Legislators representing the former districts are obviously not enthusiastic supporters of *Serrano* reform.

2. *Tax Changes.* In order to minimize harm to school district programs, additional revenues must be found. Every potential source of additional revenue is protective of its turf. This is particularly true in the areas of big revenue-producers—sales, income, and especially property. One reason for Governor Brown's popularity with the citizenry is his "no new taxes" philosophy. The prospects for any new levies are abysmal.

3. *Urban districts.* Generally, urban districts, which account for the majority of school children in the state as well as the majority of the members in the legislature, are adversely affected or, at best, not helped by compliance. Generally, urban districts have higher assessed property values, more disadvantaged students, and more low-income citizens. The effect, then, of full compliance without expensive correction is to shift money from urban areas of the state to the suburbs, from more disadvantaged to less disadvantaged pupils, and to increase taxes for low-income citizens while causing reductions for higher-income suburban residents.

4. *Corrections.* Finally, there are at least three additional problems that need to be addressed. If one is to relieve the adverse effects of tax-rate increases for low-income citizens residing in high assessed-value districts a "circuit-breaker" income tax proposal is

essential. The costs of such proposals are variously estimated from $200 to $500 million. Additionally, corrections to the formula should be made to allow for the differences in operating costs between districts. It clearly costs more on virtually every dimension to operate in San Francisco than in Fresno. To comply with *Serrano* without correcting for this disparity would be disastrous, particularly for urban districts. Unfortunately, we have not been able to develop an adequate agreed-upon index to address these problems.

The third problem is the wealth-based disparities that still may exist even after compliance. In California, when one controls for assessed value, disparities in tax rates still exist. These disparities produce differences in expenditures. We have reason to believe that higher tax effort districts, again controlling for assessed value, tend to be districts with higher-income citizens. It may be that after hundreds of millions of dollars of additional school support, massive tax shifts, and untold trauma, we will wind up only trading one kind of wealth-based disparity (district assessed value) for another (personal income).

Reforms adopted

In spite of the problems, California has taken positive steps toward *Serrano* compliance. And, while there is still far to go, the state has progressed in a judiciously incremental manner. By 1980–81, the year mandated by the court for full compliance, and assuming no change in existing law, approximately 85 percent of all California schoolchildren will be attending schools which fall within a $200 expenditure band. This represents substantial progress. Although there will still be disparities in tax rates, on the expenditure side of the equation California will be approaching equity.

There have been three major methods of compliance.

1. *Foundation program increases.* California has concentrated its *Serrano* efforts on the lowest-expenditure districts and has, by permitting the low-expenditure districts to grow at a faster rate (up to 15 percent per year) rapidly improved this situation. In 1970–71 the lowest quartile expenditure level was less than $700; by 1975–76 it exceeded $1,000.

2. *Squeeze factor.* California's revenue limit concept permits school districts *below* the foundation program amount to grow at a rate of up to 15 percent per year until they reach the foundation level. Almost all of the state's students are now at least at the foundation level. Districts *at* the foundation level are authorized to in-

crease expenditures by an inflation factor of about 6 percent per year. Districts above the foundation program are "squeezed" by being permitted to increase their expenditures by less than 6 percent per year. A brief example should explain the "squeeze." Assuming the foundation program is $1,000, a $1,000/ADA-expenditure district can increase its expenditures by 6 percent or $60; a $2,000/ADA-expenditure district would only be permitted to increase its expenditures by $30 per ADA. Although this method can be superseded by a vote of the electorate that permits a district to increase its revenue limits beyond the automatic adjustment, few districts have been successful in revenue-limit elections. The "squeeze," coupled with the foundation program increases, has dramatically converged district expenditures.

3. *"Jiff."* The "Jiff" is the name for a power-equalizing feature added in the $300 million school finance bill of 1976. Under the prior law, districts were permitted, if they could gain voter approval, to increase their revenue limit beyond that provided for by the "squeeze." If high-wealth districts take advantage of such a proposal, the squeeze could be negated. The "Jiff" requires that any newly voted increases in very high expenditure districts (above 1.5 × the foundation program) will have to be power-equalized.

In addition to the above mentioned *Serrano* measures, California has made significant progress toward meeting the special needs of its students since the California Supreme Court's 1971 decision. The Early Childhood Education program now costs over $100 million per year and provides services to 55 percent of the children in the state's primary schools. The Educationally Disadvantaged Youth program now provides over $125 million to serve disadvantaged pupils not covered by Title I. In addition, the Master Plan for Special Education is in its third year of development and now serves 50,000 exceptional students at a cost of $58 million per year. A new bilingual program, to begin in the 1977–78 fiscal year, will provide an additional $12 million to meet the special needs of the limited and non-English-speaking pupils of the state.

Prospects

In my view, the legislature and the governor will be unable to respond to the mandate of the court in its entirety. Full compliance, as I have tried to point out, is not a part of current political reality in Sacramento. However, further judicious incrementalism will continue to be the mode of school-support improvement.

My best guess for short-run changes in the existing system will be

for continuing increases in the foundation program amounts (gradually "levelling up"), substantial property tax relief, especially for low-wealth, high-effort districts, and a modest recapture feature for some of the higher-wealth districts. Accompanying these reforms will be continuing attention to special-needs programs in the areas of special education, bilingual education, and the educationally disadvantaged. In addition, the so-called "reform and restructuring" efforts such as Early Childhood Education will continue to compete for additional dollars.

There is some reason to be a bit more optimistic about the future of California school finance reform than in the past. The State Department of Education has been awarded a $1 million grant from NIE to provide solutions to some of the more persistent problems, such as differing cost-indices, municipal overburden, school construction, small-school allowances, and other features which have hindered past efforts. Even more important, because of a tremendous upturn in the state's economy and the policies of two fiscally conservative governors, by the end of 1977–78 the Department of Finance estimates that there will be a $1,474 billion surplus, by far the largest in the state's history. By the end of this decade, one hopes, the state of California will be able to have reduced the between-district disparities in wealth-related expenditures and will have met the special needs of its students so that the spirit, if not the precise letter of the law, will have been met.

ED 137 916

7 Illinois School Finance Research

G. Alan Hickrod and Ben C. Hubbard

This paper is divided into two major sections. In the first part we shall outline the major variables in the 1973 Illinois school finance reform and discuss problems that have emerged with each variable. In the second part we shall discuss evaluations of the 1973 reform and concentrate on the limitations of those evaluations. Finally we shall conclude with a short list of difficulties facing any researcher who thinks he or she can make sense out of Illinois school finance.

Bare Bones of the 1973 Illinois Reform

It would be tempting to just describe the 1973 Illinois reform as another "district power-equalization" scheme, or perhaps a "guaranteed valuation" or "guaranteed tax yield" approach, or even an "equal expenditure for equal effort" allocation system, and then push on to the much more interesting problems of evaluating this allocation system. But since these labels have only limited acceptance among researchers, we shall have to do a bit more than simply provide the labels themselves. In this connection it might be pointed out that the specific label under which the 1973 reform is usually discussed in Illinois, that is, the "resource equalizer" for-

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mula, has little meaning in any other state with the possible exception of neighboring Wisconsin. There are several good descriptions available from the Illinois Office of Education and the Center for the Study of Educational Finance, Illinois State University, of both the basic 1973 legislation and the changes in that legislation since 1973.[1] We shall therefore be content with a description of four major variables in the formula and a single constant, since these five elements are crucial to both what we know and what we do not know about this allocation system.

The first variable is the simple unweighted pupil count. As might be expected, this variable has changed very little since 1973. While a few states use a per capita rather than a per pupil measure of school district wealth,[2] all the states whose practices we know of base their general-purpose allocation system on a pupil count. Sometimes this is indirect, as in some southern and southwestern states where "classroom" and "teacher" units are used, but ultimately even these "constructed" allocation units also depend upon the number of students in the district. The only exceptions we are aware of are some categorical grants in a few states which depend upon the number of professionals of a certain type in the district rather than on the number of pupils. This "warm body" orientation, as it is referred to by some critics, also runs through the funding of public postsecondary institutions, although at that level the unit is usually "credit hours generated." Districts losing pupils will therefore also lose state aid, ceteris paribus. Recent studies by the Illinois Office of Education and by the Center outline some circumstances surrounding the loss of students.[3] We know, for example, that these student losses are not uniform throughout this state and that certain types of districts and certain geographic regions of the state are afflicted with greater losses than others. Since 1973, Illinois has moved with other states to cushion the burden of declining enrollments by allowing the districts to use the average enrollment of a three-year period. It seems to us that not much can really be done about this variable. It would be difficult, at any rate, to convince the Illinois legislature that the number of pupils was not a fundamental dimension of "need" for funds. The public postsecondary units in this state have never been able to break the "warm body" frame of reference, even though they are officially charged with functions like research and public service, and these latter functions are only tangentially related to the body count for instruction. If the postsecondary units cannot break out of the "numbers racket," it is doubtful that the K–12 units can.

The second variable of importance is the number of pupils eligi-

ble for Title I benefits under the federal Elementary and Secondary Education Act. This variable enters the Illinois general purpose grant-in-aid through the weighted pupil count, which, unlike unweighted pupils, has changed fundamentally since 1973. Illinois, unlike Michigan and California, chose not to enact a separate categorical program for the disadvantaged but rather to place a variable in the general allocation formula which would allocate more dollars to those districts with higher concentrations of poverty children. Through a complexity in the Illinois law, a few districts do receive funds on the basis of a constant weighting of .45 for Title I eligibles. However, most districts receive funds based upon a variable weighting of from .00 to a maximum of .75, depending on the concentration of poverty children in the district relative to the concentration of poverty children in the state. Illinois also provides weights of .25 for high school students and also a weighting for kindergarten students. Three other states also use this method of distributing state funds to concentrations of poverty children: Pennsylvania, Ohio, and Minnesota. Each of these states differs in the details of the distribution mechanism. This is a most important variable in the Illinois scene which is sometimes passed over lightly by those unfamiliar with this state's distribution system. In the first place, about 18 percent of all the general-purpose funds in the state are distributed by this factor alone in the formula. Secondly, it is *the* most important aspect of Illinois aid to central-city school districts and it also delivers state funds into pockets of rural poverty, mostly in the extreme southern part of this state.

This important variable is not without problems. In the first place, linking what amounts to a state definition of poverty children to the federal definition of poverty children has produced some unintended changes in the distribution of state funds, as the federal definition of Title I eligibility has changed with the passage of time. It is therefore not surprising to have a recommendation coming from the new Citizens Commission on School Finance in Illinois[4] that the state find a separate definition of disadvantagement. Unfortunately, we do not know what this new definition might be. The state might want to move in the direction of putting funds into areas of high "educational" deprivation, as the state of New York at least tries to do. Unfortunately, Illinois has no state-wide testing program; therefore, there are no firm data on the geographic distribution of educational deprivation. There is a state-wide evaluation program, but the results cannot be identified either by school district or by individual school. Alternately, the state might want to put funds into districts with high concentrations of low-income

families. Unfortunately, Illinois has no annual income data by school district. Three or four "blue ribbon" study commissions have called for obtaining annual income data from the state income-tax return, and bills have been introduced into the General Assembly to achieve this, all to no avail. Yet another possibility would be to place funds in districts with higher concentrations of children on welfare rolls. To some extent this is done now with the federal definition of Title I eligibles. However, the Office of Education has been less than satisfied with the completeness of the welfare counts it gets from other agencies of state government which do not collect data on a school district basis. The sad truth is that once we leave the sheltered harbor of a federal definition of poverty, we are at sea without a conceptual rudder, and we have only a limited amount of knowledge about the distribution of educational deprivation in this state.

There is still another problem with the Title I variable in Illinois. The Chicago school district is presently involved in a court case brought by the Reverend Jesse Jackson over the interpretation of this particular portion of the 1973 reform. Essentially, this argument turns on whether there is any legal requirement that the Chicago school district ensure that the funds sent to it by the state due to the poverty concentration factor must then be passed through to individual schools with high concentrations of pove ty children. This "targeting" provision was not enacted into the law in 1973, but there is a provision in the law requiring that the school district account for the use of the funds it receives under this particular variable. We do not necessarily wish to take sides in this current controversy, but those who maintain that these are general funds, rather than targeted funds, do have the advantage of the arguments that if the General Assembly had intended that the funds be targeted to individual schools, (a) they could have written that provision into the law, or (b) they could have followed the pattern of other states such as Michigan and California and passed a state categorical grant for the disadvantaged. This latter course of action would not only have targeted funds to individual schools, it would have targeted funds to individual programs in individual schools. In any event, we do not at present have much of an idea where these funds went, or what they were used for, at least at the state levels. Individual school districts, of course, can account for their own usage. A part of this problem at the state level is an inadequately developed chart of accounts. Despite good leadership from the Illinois Office of Education on this point, the state still does not have a required accounting system which would show

costs by individual school and by individual program. A program accounting system has been developed and adopted in a number of districts, but we are still a few years away from adoption in all the one thousand-plus districts of this state.

The third variable is property valuation per pupil. This has been the accepted measurement of school district wealth in Illinois since 1927. There are eight states which use other variables to constitute the wealth dimension, usually including income in some form. The closest of these, geographically, to Illinois, is Kansas, which uses a combination of property valuation and income. Factor analysis of school district data in other states has usually shown that the property valuation variable is not closely associated with either income or income-related variables.[5] As previously indicated, individuals and groups have put forward proposals to include an income specification in the Illinois grant-in-aid system for at least a decade. Bills have been introduced to do this in the General Assembly, but none has passed in either house.[6] The lack of annual income data has usually been put forward as the principal reason for turning back these attempts to include an income factor in the general purpose aid formula. A much more important consideration is that income-wealthy schools in this state believe they would be hurt by the inclusion of an income factor in the general purpose formula, and they have sufficient political clout to prevent this from occurring.

There has, nevertheless, been a change since 1973 in the wealth variable in this state. While the specification of wealth is still property valuations, the weighting of students by the concentration of Title I children produces a property valuation per weighted child rank order that is different from a rank order based on property valuations per unweighted child. In the main, the large central-city school districts of Illinois have profited from this change due to their concentrations of Title I children which enable them to receive more state aid. It is important to note that in Illinois the Title I weighting appears in the general allocation formula twice—once in the way pupils are counted and once in the way wealth is measured.

There are unfortunately many things we do not know about the measurement of school district wealth in Illinois. Much of what we do know centers around the work of Daniel J. Hou. A few years ago a dissertation at Illinois State University by Hou produced some interesting bits of evidence concerning the relationship of property valuation to income in this state.[7] Specifically, it appears that this relationship is curvilinear through the whole range of the property

valuation scale. Up to the median property valuation, the relationship is linear, e.g., property-poor districts are income-poor districts and moderately rich property districts are also moderately rich income districts. However, above the median there is no meaningful relationship, e.g., very rich property districts may or may not be very rich income districts, and moderately rich income districts (at least above the median) may or may not be moderately rich property valuation districts. In addition to the factor analysis studies previously cited, quite a number of studies have demonstrated low linear correlations between income or income-related variables and property valuation.[8] However, if Hou is correct about the existence of curvilinearity, then product-moment correlations, whole or partial, and also factor analysis would be misleading if conducted on the whole range of property-income measurements. Parenthetically, it might be said that even relatively sophisticated recent research in school finance is still painfully tied to the apron strings of linear models. The existence of curvilinear relations was demonstrated empirically in school variables quite some time ago.[9] Probably the ease and speed of "canned" computer programs, most of which are based on linear assumptions, has been too great for many researchers to resist.

Hou has continued his interest in the measurement of school district wealth and a study of his released by the Illinois Office of Education provides some further light on this subject. While our paper attempts to concentrate on Illinois school finance, it is helpful, at least on this particular point, to compare some of Hou's results in Illinois with the results obtained by Allan Odden in the states of Colorado, Connecticut, South Dakota, and Washington.[10] Comparison of studies with different research designs is never an easy task, and this is true for the Hou vs. Odden comparison. In the first place, Hou uses four different income weightings to adjust his property valuation data, while Odden uses only one. Second, Odden introduces his new wealth measurements into a hypothetical grant-in-aid system for simulation purposes, while Hou simulates with the actual grant-in-aid system in Illinois. Finally, Odden concentrates more on the differences between per pupil and per capita measurements, while Hou is more concerned with his different types of income specifications. Nevertheless, there are some similar general results. For example, both Odden and Hou find that rural districts are helped by the introduction of an income factor and that suburban districts are generally hurt. Similar results were obtained by Betsy Levin some years ago.[11] Odden finds that suburban districts receive more state aid under per student mea-

surements, while central cities are assisted more under per capita measurements. Hou finds that while suburban districts are indeed hurt, the degree of the damage to state aid depends upon the kind of income specification selected. For example, if Illinois suburban districts were forced to accept an income specification in the formula, they would probably prefer the Kansas method of simply adding property valuation and income together and dividing by two. Central-city school districts in Illinois on the other hand, plus the rural districts, and, in fact, all unit districts in this state would prefer, not income per capita, as one might suspect from the Odden research, but rather income per Title I weighted child. Conversely, the dual districts in this state (separate elementary and high school districts) would prefer any of the other income specifications Hou has used except income per Title I weighted child.

Unfortunately, neither Odden nor Hou can show major gains to central-city school districts by the introduction of an income variable into the general grant-in-aid formula. This is a very important policy point since the votes of the central cities would be needed in most legislatures to secure passage of any such legislation. Hou can demonstrate some very modest gains in state aid to central cities using an income factor weighted by the Illinois poverty concentration pupil count previously discussed. However, rural districts can gain over 16 percent state aid by using that poverty concentration weighted income factor, while the central city gain is about 2 percent. Hou's research, unlike Odden's, also investigates the effect of introducing income specifications on state-wide equity goals, which are discussed in the second part of this paper. In general, Hou finds that either per capita income or income per Title I weighted pupil would move the state of Illinois closer to these equity goals.

Until very recently, it has not been possible in Illinois to get property valuation data disaggregated into classifications such as residential, commercial, industrial, farm, and so on. Such classified property valuation data are now available on a township basis for a small number of counties in Illinois and the Center at ISU is seeking funds to explore these new data. However, even these new data will only be an approximation, since data translations from township to school district terms will require an assumption that these different valuations are evenly spread in a township, and we know that not to be true. We must admit that we will never have a very firm grip on the important wealth variable in Illinois until the General Assembly requires both income data and disaggregated property valuation data by individual school district on an annual basis.

This is an area in which the political process might finally begin to stand in the way of accurate school finance research. If some legislators refuse to allow the collection of certain data simply because they think there is the possibility that these data might, at some future time, be used to the detriment of their constituents, we could reach a real standoff between the need for data upon which to base public policy decisions and the perceived interests of at least a part of the public for which those decisions are made.

The fourth variable is the local tax rate for operating purposes. This is completely new. Prior to 1973 Illinois was on a Strayer-Haig system and therefore did not use a measurement of this nature. Without a doubt, we know far less about this variable than about any of the other variables discussed to this point. Theoretically, this tax rate is supposed to represent "local effort." It is an important part of the "equal expenditure for equal effort" motivation that led to the passage of the 1973 reform in the first place. The first problem is that "effort" cannot really be measured without also specifying "ability to pay" or "wealth," and hence all the problems discussed previously with the wealth variable also adhere to the "effort" variable. For example, if income is desirable in a wealth measurement, it is just as desirable in an effort measurement. But there are additional problems beyond this. Illinois, like most other states, with the possible exception of Maryland, is beset with fractional assessment practices. Legislation is currently in existence to bring all ratios of assessed valuation to true market valuation toward 33⅓ percent, excluding classified valuations in Cook County. However, even if the current legislation is successful, it will only have equalized valuations between counties in the state and not between townships. Therefore, there is no way to be absolutely sure that a given tax rate, say $3.00 on the hundred valuation, or 3 percent, in one district has exactly that same tax burden in another district. The two districts may well have different fractional assessments because they lie in different townships. Furthermore, both reason and some empirical research suggest that at least some districts may be able to "export" a part of their property tax burden.[12] A district with heavy commercial and industrial valuations may be able to shift forward a part of the property tax burden to the customers and consumers of its products. A district that is primarily residential has no such possibilities. For several reasons, then, it must be clear that we do not really know how to measure "equal effort" in Illinois and, therefore, cannot really attain "equal expenditure for equal effort." This particular shortcoming may have legal consequences. A part of the argument of the city of Cincinnati in its

suit against the Ohio Department of Education (*Cincinnati* v. *Essex*) alleges that the failure of the state to measure effort on an equitable basis is in fact a denial of equal protection of the law. We have elsewhere noted that, if the Ohio courts hold that this is indeed a violation of the equal protection clause, then similar cases could be expected in Illinois, Kansas, Colorado, and indeed many other "reward for effort" or "district power-equalization" states.[13]

What we do know empirically about this tax rate variable is disquieting. Some nine years ago, Johns and Kimbrough pointed out that, in Illinois and a few other states, there was a positive relationship between income and tax effort, e.g., the richer districts exerted the greater effort and the poorer districts exerted the lower effort.[14] This led Johns to reverse an earlier, more favorable opinion of "reward for effort" provisions and to oppose the adoption of "reward for effort" principles in state allocation systems.[15] In our first-year evaluation of the 1973 reform, commented on later in this paper, we also observed the same positive relationship between income and tax rate.[16] These correlations were of relatively low magnitude for unit districts but were of much higher magnitude for high school and elementary districts. More recently, Yang and Chaudhari, in a study supported by the Illinois Office of Education, found high tax rates in Illinois to be correlated with high educational attainment, high occupational status, high residential housing values, and population density. By contrast, low tax rates were associated with low educational attainment and low income.[17] An important qualification on this piece of research, however, is that the tax rates in question are 1974 tax rates updated by some 1975 referenda results. A study of the determinants of tax referenda at ISU by Rasanond also indicates that property-wealthy school districts continue to pass more referenda than do property-poor school districts, after the 1973 reform as well as before it.[18] Simultaneously with these Illinois investigations, Gensemer has demonstrated in Ohio that even in a multivariate model there is still a strong positive relationship between income and tax rate. Specifically, he finds that each additional $100 in 1969 income was related to an additional 0.14 mills on a school district's 1975–76 school-operating millage rate.[19] Alexander also notes a positive relationship between income and tax rates in California.[20] The evidence is building that Johns may be correct in his position that "reward for effort" is not compatible with equity or equalization of educational opportunity goals. However, we wish to suspend judgment until we have had an opportunity to study more referenda results in Illinois and, more important, until we can determine more precisely the conditions sur-

rounding tax rate change. There is bound to be a time lag in the effect of any formula and, in the case of the 1973 reform in Illinois, the first tax rates that could have been affected were the 1975 rates. More likely, it was the 1976 and 1977 rates that were influenced by the 1973 reform. Actually, we have little or no idea how long it takes for a newly adopted "district power equalization" or "reward for effort" system to influence local voter behavior. Therefore, we are not completely sure that in district power equalization situations it is always the rich and well educated who are going to make the greater marginal effort than the poor and less educated. If the ratio of successful referenda in the poorer districts has improved more than the ratio of successful referenda in the wealthier districts, we would have a finding meaningful to all "district power equalization" states. The Center is currently seeking funds to explore the determinants of tax rate change from 1970 to 1973 versus 1973 to 1976. We feel that only longitudinal studies of tax rate change can cast much light on the crucial effort variable.

In the event that the General Assembly does want to move to another specification of effort, research by Carson and Hou in Illinois suggests that the effort variable could be weighted by an income specification with some interesting results.[21] Carson and Hou, fully cognizant of the harmful effects of an income weighting on state aid to suburban districts, offer models in which only districts below the state average income are helped and districts over the state average are not hurt. Furthermore, any district still in the "board leeway" action range, e.g., below the tax rates requiring referenda, would not be helped. Curiously, however, only median family income and per capita income are introduced into these models and not income per Title I weighted child. A number of things can be said for these models. For example, they send more state aid to downstate districts and thus offset the criticism that the 1973 reform was mostly for the benefit of the central cities and their suburbs. Second, the cost seems to be within reasonable limits, around $30 million, if introduced into the present formula. Perhaps most important, such a model would at least partially meet the criticism that the inclusion of an income variable is not useful unless the local district has access to income at the local tax level. If state aid is withdrawn from high-income districts, it can be argued that these high-income districts will then raise their property tax rates, thus driving out whatever poorer families happen to reside there. Even the wealthiest districts in Illinois have at least some relatively poor families. However, if the income factor introduced into the grant-in-aid only increases state aid, and does not decrease

state aid, then the fact that the local district cannot tax income is less objectionable.

The problem with the Carson and Hou approach seems to be the same problem with introducing income into the wealth factor, that is, central-city school districts are not helped very much by this process. Using income per Title I weighted child would probably place more funds in the central cities, but not much more. Experimentation with models like this is a never-ending process. For example, we have yet to see a model that would introduce income per Title I weighted child into both the effort factor and the wealth factor simultaneously. Such a model would probably be more useful to the central cities. Unfortunately, such a model would also be more expensive from the point of view of state aid. Herein lies an interesting political dilemma. A highly tailored income factor introduced into either the wealth variable or the effort variable or both, which helped only the income-poorest districts, might find a warmer reception with the governor, since it would be less costly. However, such a procedure would aid such a small percentage of the population that it might be difficult to pass in the General Assembly. It is hypocrisy not to admit that one does buy votes for reform with increased state aid.

One final point on the 1973 reform of the general purpose grant-in-aid relates not to a variable but to a constant. That constant is the guaranteed valuation per pupil which sets the limits of state contribution to the formula. At present this is set so that the state participates up to $1,260 per Title I weighted child, assuming the district is levying the maximum tax rate under the formula. However, no provision was made in the 1973 reform to raise this level with the passage of time. Most analysts agree that one of the principal weaknesses of the prior foundation level grant-in-aid program in Illinois was the inability of the foundation level to keep pace with inflation. The reform of 1973 unfortunately did nothing about this weakness. The $1,260 figure will therefore get out of date, if it is not already out of date, and if the inflation continues as it has in the past, this figure must be changed. The forthcoming report by the Citizens Commission on School Finance addresses this inflationary problem and recommends raising the guarantee to keep pace with the inflation.[22] Mention, however, of keeping the Illinois grant-in-aid formula current with inflation produces something just short of cardiac arrest in the Illinois Bureau of the Budget. It is surely true that there is seldom any "reform" that does not call for increased state aid, and a reform aimed at offsetting inflation is certainly not a bargain basement affair. However, increasing the percentage of

state aid is not simply a means of solving equity problems, although it is most assuredly that. It is also a way of keeping the entire system more current with inflation since state sales and income revenue, upon which state aid depends, is more elastic in yield than the local districts' property tax revenues. Clearly, a high level of state participation, plus a state grant-in-aid system that automatically adjusts for inflation, are at least two hallmarks of a good public school finance system at the present point in history. For further discussion of the matter of inflation, the Thirteenth School Problems Commission Report could prove helpful.[23] Governor Thompson is currently asking for the voters of Illinois to delay the purchase of such a system until some future date. We concur with him that such a system would probably necessitate a rise in the state income-tax rates, but then any honest presentation on Illinois school finance should probably begin with the sentence: "We need an increase in the state income-tax rates because. . . ."

The Three Annual Evaluations of the 1973 Reform

When the Illinois General Assembly broke with forty-six years of tradition, it obviously did so with more than a little hesitation. The legislative leadership regarded the new allocation system as "experimental" and directed that it be closely monitored and tested for the next few years. Accordingly, both the Illinois School Problems Commission and the Illinois Office of Education have provided small grants to the Center at ISU to evaluate on an annual basis the operation of the 1973 reform. The General Assembly is to be congratulated on this action. We know of few other situations where a legislative body made specific provisions for the evaluation of school finance reform legislation. A small amount of matching funds was also secured from the U.S. Office of Education. Three such annual evaluations have been completed using financial data from each of the three years following the passage of the Act.[24] Since our intent in this paper is to improve research rather than to report research, we shall provide only the briefest summary of the results and concentrate upon the limitations of these studies.

The three annual evaluations were set up on a fairly standard format to facilitate comparison of results from year to year. Some additional analyses were included each year which may or may not have been repeated in other years. The emphasis in all three annual reports was upon equity goals of the state, and two basic criteria were established to operationalize these equity goals. One was labeled "permissible variance" and the other "fiscal neutrality,"

although some analysts now seem to prefer to call this second criterion "wealth neutrality." We believe this to be in keeping with the intent of the 1973 reform. In passing this act, the General Assembly had placed emphasis on its desire to reduce the disparity in expenditure per pupil between school districts to more "permissible" ranges. Second, the legislature had also evidenced a desire to make expenditures less of a function of local district wealth. Legislative and political studies will show, of course, that not all members of the General Assembly desired that goal, and some legislators do not consider these to be desirable goals even now. The legislative leadership, however, particularly in its action through the Illinois School Problems Commission, did make it known that the attainment of equity goals was a high priority item. It is to be hoped that legislative and political studies currently under way at the University of Chicago can cast more light upon the motivations and actions of the General Assembly during this 1972–73 reform period.[25]

The Center at ISU then borrowed, adapted, and developed various techniques to measure these two goals, e.g., reduction of variance and the association of wealth with expenditures. Some of this measurement activity was the straightforward use of standard statistics such as the coefficient of variation, that is, the standard deviation divided by the mean and multiplied by 100. But we soon found we needed other quantitative tools not to be found in most statistics books. For example, one notion of "permissible variance" held by many educators and legislators is that the state should be concerned only with variation below the middle of the expenditure distribution. According to this point of view, held historically by Paul Mort and his associates, among others, the task of the state is to level up expenditures in the bottom half of the distribution but not to constrain in any way expenditures in the top half of the expenditure distribution.[26] The use of the coefficient of variation would not be appropriate if that view is taken of "permissible variance." Fortunately, Eugene McLoone had been using indexes of expenditures based on the distribution of expenditures below the median, and we adopted some of these tools for Illinois.[27] Our usage was not identical with McLoone's, however, and therefore our results cannot be directly compared with his.

Finding an operational definition of "permissible variance" was not too difficult. Finding an operational definition of "fiscal neutrality" was a bit more of a challenge. We started with the notion of a least-squares regression slope of expenditures on wealth, since that had been used historically in studies of expenditure determina-

tion at Stanford University and elsewhere.[28] However, in order to simplify the results for legislators and other decision-makers we used this relationship in simple bivariate form. That is, the relationships we reported in the three annual evaluations between expenditure per pupil and wealth per pupil were gross elasticities of expenditure upon property valuation and upon income. They are not net elasticities since they do not control for the effect of variables other than the two measurements of wealth upon expenditures. This is the first limitation upon our results. We are of the opinion that net elasticities might be more appropriate, and Harrison has demonstrated that this is possible.[29] However, there are major theoretical and data-availability problems if one wishes to use net rather than gross elasticities of wealth as a specification of "fiscal neutrality." In the first place, even after decades of experimentation with expenditure determination studies in school finance, there is still no one single multivariate expenditure determination model that would be acceptable to all researchers.[30] That is, we are still not sure just what to control for when we measure the relationship between expenditures and wealth. Second, expenditure determination studies have turned up major specification and intercorrelation problems with the independent variables. The full weight of all these econometric concerns descends upon the school finance analyst who chooses net elasticities rather than gross elasticities to measure fiscal neutrality or wealth neutrality. We were just not that brave, and besides we knew of others who were simultaneously measuring wealth neutrality by gross elasticities.[31] One final point on the net elasticities limitation: those attempting to use net elasticities in a longitudinal framework will have to find control variables that can be measured on an annual basis, or at least at more than one point in time. This will not prove an easy task.

While gross elasticities of expenditure upon wealth have proved a very serviceable tool, we were, and we are, aware of one serious weakness in that tool. In the standard regression technique each school district has the same effect on the reported regression coefficient, or in this case elasticities, since we customarily transform both expenditures and the wealth measurements into their logarithms. Thus the Chicago school district has the same weighting as the smallest district in the state in these calculations. This started us on a long and very involved search for a measurement tool that would use the student as the unit of analysis rather than the district. Only a small part of that development can be recounted here. Essentially, it led us to review the possible uses of the Lorenz

curve and the Gini index, methods which had been used by economists since the turn of this century but were not a standard part of educational statistics. Eventually we devised a particular adaptation of the Lorenz-Gini procedure, which depends upon ranking districts first by a wealth measurement and then calculating a cumulative distribution of students from poor to wealthy. Essentially, this usage turns the Lorenz-Gini procedure into a measurement of association rather than a measurement of dispersion, which had been its traditional role in economics. The current school finance literature reports both successes and failures with this approach.[33] It appears to work well in most states when property valuations are taken as the measurement of wealth, but complications can arise when income is introduced into the wealth specifications. Neither the descriptive nor the inferential properties of this quantitative technique are fully known at present, and we have usually cautioned interested researchers to use the procedure with some care.

We come now to a second major limitation on the Illinois evaluations. The expenditure measured in all three annual evaluations is revenue from local sources plus general state aid. We have never included either state categorical revenues or federal categorical revenues in these calculations. Our justification for not including these other important sources of education revenue (to realize just how important they are, one need only remember that one-third of Illinois K–12 aid is distributed through state categoricals) has been that these other forms of aid are "targeted," that is, they are intended for special kinds of student needs. In essence then, we have assumed that state general equity goals must be achieved *before* "targeted" money is laid on, since "targeted" money is intended for special needs after general equity has been achieved. We have therefore taken the same policy position relative to state categoricals that the federal officials generally take relative to federal categoricals. Equity, or in the federal terms "parity," must be achieved first with general state aid and local dollars before categorical dollars are allowed to enter the calculations. It has been argued by some that we should have looked at the relationship between total expenditures per pupil and wealth rather than simply at state general-aid dollars plus local dollars. However, that would require us to believe that "targeted" dollars are to be used to establish general state equity goals. The important point is that, if either total state dollars or state plus federal dollars are used in the equity measurements we have devised at the Center, then one might well get quite different results. In fact, if our original assump-

tion was correct, one should get different results when these funds are added to the analysis.

A third limitation on the Center's evaluations concerns the difficulty of comparing these results with those of any other state. The weighted student measurement used in Illinois is not like any other weighting used in any other state. Illinois results could be stated in average daily attendance (ADA) terms, and we have done that in some instances. However, these ADA results can be quite misleading since the state both delivers its dollars and even measures the wealth of school districts on a weighted student basis. Since the General Assembly did not "target" the funds delivered by means of the Title I weighting, all evaluations of the Center do not treat those funds as categorical aid but rather include them within the general state aid. Thus, it is more accurate to think of the Illinois evaluations as equity tests or equity evaluations conducted on school districts whose pupils have been weighted for a condition of poverty. We think this procedure is legitimate if one is going to try to assess progress toward equity goals that Illinois has made with the passage of time, but it does make state-to-state comparisons for specific times awkward. A study by Thomas Yang that the Center supported does provide one way out of this limitation.[33] Yang used the same evaluation procedures on Michigan and Kansas data that we have used in Illinois. However, in each case Yang used the pupil measurement peculiar to each state. Therefore, while he cannot make comparisons at any given time between the three states, he can assess the degree to which each state has progressed toward equity goals with the passage of time.

If all of the foregoing limitations are borne firmly in mind, then one can say that the 1973 act has done what the General Assembly wanted it to do in the three years immediately following the reform. The evidence does show a reduction in the disparity between school districts in expenditure per pupil. The trend is more marked in unit districts and high school districts than in elementary districts, but there is evidence of reduction in variance in all three populations. If one concentrates on the variation below the median expenditure, then the evidence indicates progress in moving up the low-spending unit districts and high school districts, but there appears to be no such progress for low-spending elementary districts. The findings with respect to the attainment of the goal of "fiscal neutrality" or "wealth neutrality" are also reassuring. This is especially the case when the evaluation using gross wealth elasticities is used. In all three categories of districts in Illinois—unit, elementary, and high school—there is evidence of movement toward

wealth neutrality. This is especially true in unit districts where the slope of the regression line between property valuations per pupil and expenditures per pupil has been cut in half within a three-year period. The evidence that uses income as a wealth specification, rather than property valuations, is not so regular as the property valuation results, but the third year's values are all less than those of the base year and thus support in general the property valuation results. Should the state ever face a constitutional challenge to its allocation system based upon wealth neutrality grounds, these results should prove helpful to the defendants. Tests made with the Gini index and the Lorenz curves are also generally supportive of the results achieved with the gross wealth elasticities, but there are problems in the use of this evaluation technique. Essentially, these problems have centered around the fact that Chicago appears relatively wealthy in terms of median family income, or even income per weighted pupil, and thus aid to Chicago is registered as aid to wealthy students on the Gini-Lorenz procedures.

Not all the results of the evaluations are cast up in equity terms. The first year's evaluation, for example, broke down state aid increments according to school district typologies like central cities, slow-growth and rapid-growth suburbs, independent cities, and rural districts. It was obvious from these results that some of the critics of the 1973 reform were justified in their allegation that most of the increase in aid went to either central cities or suburban districts. To put it more bluntly, the rural areas were left out in the 1973 reform. This may tell the political analysts something about the waning strength of the rural contingent in the Illinois General Assembly. We have not developed that type of classification analysis as fully as we might in the second- and third-year evaluations, but we hope to come back to it in future evaluations.

We come now to the fourth and final limitation on the Center's evaluations. All of these results are for the short run, specifically for the three years after the enactment of the reform. We know very little about the long-run results of this kind of allocation system. It is certainly possible that the movement of the state toward equity goals is mostly a matter of the large increase in state aid since 1973 and has little to do with the nature of the grant-in-aid system. Unless the grant-in-aid system is very badly structured, equity problems will improve with an increase in the percentage of funding assumed by the state government as opposed to the local governments, no matter what the grant-in-aid system looks like.[34] There is another problem with the particular kind of grant-in-aid system Illinois adopted in 1973. As long as the allocation formula is being

"phased in," the districts are really being paid not only for their current effort but also for their past effort. Once the formula is fully funded, districts will receive increments in state aid only if they are able to increase their local tax rates, and in Illinois this usually means passing tax referenda. Thus, beyond full funding of the 1973 reform, districts that have not already achieved the maximum rate the state will match and that pass tax referenda will be rewarded by the state; those that do not pass referenda will continue to receive less from the state, assuming no change in the constants of the formula and no change in the constraints on the variables in the formula. But, as we have previously mentioned, we know only a limited amount concerning the determinants of tax rates at given times and virtually nothing about the determinants of tax rate change over a period of time. If we are to get any kind of firm grip upon where we might be heading beyond full funding of the 1973 reform, we must learn more about referenda behavior and tax rate change under the conditions of a grant-in-aid system that rewards local effort. This statement, of course, holds not just for Illinois but for all other states that have adopted "district power equalization" or "guaranteed tax yield" systems. The efforts of the Center are currently directed toward gaining that type of information.

The Rocks and Shoals of Illinois School Finance

Navigating the waters of Illinois school finance is a hazardous undertaking at best. Among the rocks and shoals presented to any explorer are the following. First, no one can say with absolute certainty just what the overall picture is for all 1,025 districts in this state. The best we can do currently is to describe the situation for three distinct populations of 128 high school districts, 449 elementary districts, and 448 unit districts. The separate high school and elementary districts overlap in a haphazard fashion, and as yet we have been unable to reduce all fiscal data to constant K–12 terms. This is complicated by the fact that the organizational distribution is not uniform in the state. Most dual districts are in the north, while the unit districts are in the central and southern portions of the state. Second, the presence of over one thousand districts means the researcher is delivered over to the not-so-tender mercies of the "computer jocks" for anything that is known at all. Contemplating the high probability of programming error in one's data will drive even strong men to drink. Third, there is a good chance that the over one thousand units of measurement do contain quite a number

of highly deviant individual scores which will have all kinds of weird results on the researcher's descriptive and inferential statistics. A good case can be made for "Windsorizing" the data in Illinois school finance, e.g., eliminating ultrahigh and ultralow scores, but as yet we have lacked the courage to do this at the Center. Fourth, Illinois school districts are coterminous with absolutely no other unit of local government, not even mosquito abatement districts. Analysts used to working with all the county data that are available to those who explore school finance in the southern part of the United States are usually aghast at the small amounts of data available by individual school districts in Illinois. Fifth, since Illinois has no annual income data by school district, people do look at you rather strangely when you explain that the federal census income data you are using are nine or ten years old. Sixth, Illinois has no required state-wide tests of educational achievement, and therefore devotees of the production functions in school district terms have avoided this state as if it had the plague. Seventh, this state has very large and complicated special purpose or categorical grants, and no one can say with any degree of confidence what the effects of these categorical grants are on the general fiscal picture. Eighth, the Illinois General Assembly just doesn't act like an American legislative body when it comes to school finance. The model seems to be the British Parliament, where legislation is less likely to be repealed. Here, the basic law is simply amended and the old allocation systems are kept right alongside the new allocation systems. The result is one of the more complicated school finance laws in the nation. Getting to know how the Illinois financial system works is like being initiated into a secret fraternal order. Ninth, disaggregated data on different kinds of property valuations are available for only a limited number of school districts, but on that particular score Illinois is probably no worse off than quite a number of other states. Tenth, costs are not yet available by individual school and individual program at the state level, but the state is at least trying to do something about that situation. Eleventh, incredible as it may seem, the largest district in the state, Chicago, is not a part of the reporting system for certain kinds of data in the state. Twelfth, Illinois spends over $4 billion per year on school finance, but until recently it has seldom put more than a few thousand dollars per year into school finance research. There are other jagged rocks that can tear the heart out of any vessel launched in these fearful waters, (many of these other hazards are of a political nature). However, we shall stop with this dozen and leave the rest to be discovered by other explorers.

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8 The Politics of Aid: School Finance Reform in Illinois

Suzanne W. Langston

The redistributive nature of the resource equalizer in the 1973 Illinois school finance reform and the political factors related to this redistribution are my concerns in this paper.

In order to understand the political framework that produced the resource equalizer, I will first look at certain points in the history of school finance in Illinois which set the stage for this legislation.

In 1927 a Strayer-Haig foundation type of formula was adopted in Illinois; from that time until 1973 there was no major change in the philosophy of state aid distribution in Illinois, although there were significant changes in the mechanics of the old formula, such as increases in the foundation level, changes in the qualifying rates, and weighting of certain categories of students. These yearly changes, with the political squabbling which accompanied them, were considered patchwork by most legislators and state education interests, who did not look forward to the end of the legislative sessions when the school aid formula came up.

A state income tax was passed in Illinois in 1969. At the same time a percentage equalizing type of formula was presented to the School Problems Commission in the hope of making the formula change possible by using the new revenue from the income tax. It appears that in 1969 the state was not ready for major change in the formula, for the proposal was not successful.

In 1970 a new state constitution was approved which included a greatly revised education article. This article included the statement that "The State has the primary responsibility for financing the system of public education."

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The California Supreme Court issued its famous *Serrano* ruling in 1971. In 1972, as a result of the *Serrano* ruling and the concern at the national level for school finance reform, two study groups met to examine school finance in Illinois. State elections were held that same year, resulting in a Republican General Assembly and an executive branch headed by a Democrat who viewed himself as independent of the Cook County Democratic organization. The state superintendent of public instruction was a Democrat who had been elected in 1970.

This is the background for the events which took place in the spring of 1973 when the resource equalizer legislation was passed. The legislative history of this reform can be summarized as follows.

1. There was a party split on the issue, accompanied by philosophical differences; that is, more was at stake than in the ordinary Democratic vs. Republican division.

2. There was very little lobbying on the legislation by any group. I believe this was because the major groups that would have been involved had state-wide constituencies which were divided on the issue.

3. The issue was not perceived by most legislators as being a redistributive one. The general belief was that the new formula's purpose was to provide more money for everyone without the annual patchwork efforts.

4. The rank-and-file members of the General Assembly were more concerned about tax relief than school finance reform at the time. Legislation had been introduced to freeze property taxes, or property tax extensions, and to have a referendum on the abolition of the property tax. The supporters of school finance reform per se were only a handful of legislators and state education people.

The old Strayer-Haig formula affected school districts differently than did the 1973 legislation. The old formula particularly benefited unit districts and districts with high assessed valuations and low tax rates—such as some rural districts or those with large amounts of industry relative to the number of students. Strayer-Haig was not very beneficial to either the Chicago suburban districts or to separate high school and elementary districts in general.

The changes that resulted from the 1973 legislation can be presented through analysis of the financial data provided by the Illinois Office of Education for the first two years of this legislation, SES data from the National Center for Educational Statistics, and data from interviews I have conducted around the state. Our analysis of these data shows that an increased proportion of the total amount of state aid was directed to Chicago, the Chicago suburban

districts, and to high school districts in general as a result of the resource equalizer. The formula was in fact redistributive.[1]

Why did this happen? The resource equalizer increased the proportion of state aid to Chicago for three reasons which are somewhat interrelated. One reason was the inclusion of a weighting for Title I pupils. The argument was made that Chicago primarily, but other areas with similar problems, needed extra money to provide quality education for its substantial proportion of disadvantaged pupils, and the Title I weighting was the mechanism for providing this extra money. The second reason and perhaps the moving force in the first is that Chicago had at least two very able spokesmen for its education interests. These two legislators understood school finance and saw to it that Chicago was taken care of. The last reason Chicago did so well is the fact that the passage of legislation of this type was unlikely without the support of Chicago's legislators. Although the Republicans potentially had enough votes to pass the bill, it was not until a last-minute compromise garnered the Chicago Democratic votes that passage was certain.

The suburban districts received an increased proportion of the total state aid for several reasons. One is that the resource equalizer was designed to bring about fiscal neutrality, that is, to separate the amount spent on a child's education in a given district from the property wealth of that district. Since the suburbs on the whole have relatively lower assessed valuation per pupil, they would be expected to gain from the new formula. Second, the resource equalizer was based on the principle of reward for effort. On this count, too, the suburban districts would benefit, for traditionally the tax rates have been higher in most suburban districts than in other areas of the state. A third reason why the suburban areas benefited in terms of state aid is that in 1973 most of the legislators who had a good understanding of school finance in general and the resource equalizer in particular were suburban legislators. These legislators were in a position to *know* how the new formula would treat their constitutents and to make certain that any new formula would be beneficial to them. A fourth reason the suburbs benefited is the apparent belief by state officeholders in the importance of the suburbs in state elections. In appears unlikely, for example, that the governor would have signed legislation that would not have been thought to be beneficial to this segment of voters. The final reason the Chicago suburban districts received an increased proportion of state aid was that, although there was only minimal lobbying for the resource equalizer, most of the lobbying was by two groups that represent primarily Chicago suburban districts.

The secondary districts received an increased proportion of state aid as a result of the 1973 school finance legislation for at least two reasons. The first was that both types of dual districts (elementary and secondary) had been at a disadvantage relative to unit districts under the old Strayer-Haig formula, which had required differential qualifying rates. This was a result of the use of the Strayer-Haig formula to encourage consolidation. By 1973 dual districts had formed a united front with considerable political power to press for equitable treatment in the formula. The resource equalizer in an earlier form would have brought about equity for dual districts, a result that would have increased the proportion of state aid in both elementary and secondary districts. The fact is that the elementary districts became entangled in what has come to be known as the access problem; that is, the legislators would not go along with the idea of allowing the local tax rates to be raised by school-board resolution to the level required for maximum entitlement. Therefore, elementary and unit districts could gain access to full entitlement only by passing local referenda. The high school districts did not have this problem, as the tax rate required for them to reach full entitlement was relatively low; most of the high school districts were eligible for full entitlement from the beginning.

The second factor which would explain why the high school districts received an increase in the proportion of state aid was the increasing enrollments in the high school districts at the time. Because declining enrollments were occurring in the elementary grades, the high school districts had proportionately more students and therefore should have received proportionately more state aid.

Two final comments must be made. One is that our analysis has focused on the relative amounts of state aid going to different categories of districts. For this purpose, I believe our results can be accepted. However, with a variety of other types of analyses, such as those seeking to evaluate the equalizing effects of the formula, we must use caution in making judgments because of the gross inequities of assessment practices in Illinois. Any formula using assessed valuation as a measure of wealth is unlikely to be entirely equitable if assessment practices vary. The resource equalizer is doubly vulnerable to this criticism since it uses both assessed valuation as a measure of wealth and tax rates as a measure of effort. It seems apparent that as long as the assessment practices remain unchanged in Illinois, we can only talk about relative, not absolute, improvements.

The second point is that much has changed in Illinois since 1973. We now have a Republican governor, a Democratic General As-

sembly, an appointed state superintendent, and a totally different state of the economy. Those who are evaluating the resource equalizer or trying to find a better formula must temper their judgments and evaluations by an understanding of the intentions and problems of those involved four years ago in the development and passage of this legislation; they cannot judge solely in terms of the current situation.

Note

1. For a description of the elements of the 1973 Illinois "resource equalizer" formula, see chap. 7, pp. 63–74.

APPENDIX A
Illinois School Finance Today

Comments by Joseph M. Cronin

Since 1973 the Illinois General Assembly has made four or five technical adjustments to the state aid formula. One of the most disconcerting effects in the whole area of school finance is that, if you lose enrollment you not only lose state aid on a per pupil basis but your assessed valuation per pupil increases—creating what has been called the "double scissors effect." Last year some 400 school districts in Illinois lost state aid while they were told that the whole state aid was increasing, which in fact is has. Illinois, I think, has made great progress in moving over a period of 15 years from about 25 percent state support to 33 percent state support five years ago, and now very close to 50 percent. That's on the average. Some of our very poor communities may be at 70 or 80 percent, but the absolute number of dollars for a number of elementary districts with serious enrollment declines has gone down. It all balances out to show an overall improvement in the state effort.

We've already lost 100,000 public school pupils in Illinois. Illinois will lose 400,000 more between now and the early 1980s so it's a very serious problem. On the whole Illinois will decline by about 20 percent in the public school population. I might add that the parochial school enrollment until recently dropped at an even faster rate. One of the solutions effected was to change a feature that said districts could, for state aid reimbursement purposes, pick the best six months attendance in the last three years. This is a handy remedy for the present but it is not very sophisticated.

There were also some adjustments made to improve the access of

the elementary and unit districts to state funds. Some 33 percent of the money had been going to high school districts, which had no more than 20 percent of the children, a genuine imbalance. There were also provisions made in the last session of the legislature to allow for transportation costs to be included in the total amount. Those high school districts which had a mandatory tax rollback feature were able to get that repealed as part of the whole package. This was constraining school expenditures and restricting access to the local property tax for many of the North Shore school districts.

The Citizens' Commission on School Finance, chaired by George Morrow, the president of Peoples Gas, Light, and Coke here in Chicago, including distinguished citizens from all over the state, two members of our state board of education, and two legislators, has come up with just short of three dozen recommendations. One of them will be an annual adjustment in the $1260 number, the sort of guaranteed amount. That number should probably be closer to $1500 or $1600 given the more than 30 percent increase in the cost of education over the past four years. With the changes in assessment it is quite likely we should take a look at the $43,000 equalized assessed valuation per pupil and adjust it. The dust is still settling on assessment reform. One of the more controversial recommendations will be the elimination of the referendum requirement to get access to the formula. There's been some speculation and some editorial comment in the press already. Illinois has a long tradition of school referenda and it's a very comfortable tradition, even though it's very constraining and has resulted in communities such as Rockford having a terrible time, given their declining enrollments, assessments which have been lowered by state law, and reluctance in the past to go to the local property taxpayers. Rockford had to make some excruciating cuts: the dropping of some 350 teachers and all of their extracurricular activities, sports, and the like. But that's just a more extreme case of the problems created.

Many of the categorical programs, which now approach a third of a billion dollars a year, are disequalizing or potentially anti-equalizing in that they weaken the overall equalization goal of the general state aid package, which amounts to about 1.3 billion dollars.

One of the changes brought about in 1973 had the result of tossing out all incentives to school district organization. Suzanne Langston's paper discusses the activities of the elementary and high school districts—the so-called "dual districts"—to eliminate the bonus that unit districts receive. Now there are new reasons why some school districts are considering consolidation, the

biggest of which is declining enrollment. We have one school district of 80 students, kindergarten through grade eight, where 12 students graduated last year but only two new students presented themselves to the first grade. Again that is an extreme case, but we have, not too many miles from here, districts that are going to lose from 30 to 60 percent of their total enrollment (elementary districts in mature, close-in Chicago suburbs). We can expect school district reorganization, although at present there are no incentives, "sweeteners," or transition aids at all. The Citizens' Commission proposal is not to put back the Strayer-Haig bonus for unit districts but to have some short-term transitional grants to make it easy for those school districts who absolutely know that they must consolidate and where the local citizens arrive at that decision on their own.

The dilemma of accounting, drawing conclusions, and making comparisons among school districts has moved us in a series of steps toward Handbook Two, promulgated by the federal government. There's a very strong recommendation coming out that we initiate accrual accounting, which is what the auditors and accountants prefer and which could, combined with some program budgeting, reveal more of what we're doing. We'll probably achieve that reform by 1979, if the citizens' recommendation holds up. We've been doing it gradually and voluntarily, because so many things are already mandated. It is a major change, from the point of view of school superintendents and school business managers, but that probably will come. In some ways Illinois is now worse off because we have two accounting systems in place simultaneously.

The citizens were very concerned about the lack of evaluation. We do have an Illinois Inventory of Educational Progress but it is done along the national assessment model and does not display local district or local school facts which would be useful in assessing the productivity of increased state and local expenditures. There will be some bills in the legislature this year to mandate statewide testing and the like. Two dozen other states have already required it. The Citizens' Commission decided that there should be some state evaluations and state assessments but there should also be provision for local evaluation so that local goals could also be monitored and so we don't press the whole state into one uniform mold. That notion I applaud.

Neither the Citizens' Commission nor the Technical Task Force of professionals, university people, and representatives of the various associations has as yet come to grips with how much or exactly what to do about an income factor in the state aid formula. We could

further complicate a cumbersome formula and it's not clear that we would get spectacular gains. The Citizens' Commission shied away from doing a great deal in the area of assessments because in some ways it's a world of its own. On the other hand, it's absolutely vital to have uniform and equitable assessments to make a school aid formula work, so more will have to be done on sorting that out. Next there's the issue of weightings—whether or not the categorical grants can be linked to the general state aid formula so as to be more equalizing. Even in this area there would have to be some kind of cushion for those districts which get very little state aid except in areas like special education and vocational education. It's a very complicated area; we're watching the experience of Florida and a couple other states with great interest to see to what extent we should move into that area.

Finally, while we pray and agitate for additional state aid for the general formula, we find ourselves with 94-142, the new federal law requiring extensive special education programs, which even suggests that maybe the education agency should take over the costs of special education programs now run by other agencies. There are about six agencies in Illinois now, ranging from children and family service agencies, to mental health, public health, corrections, vocational rehabilitation, and others. If and when we achieve the goals spelled out in 94-142, which should be in the early 1980s, the current expenditure level for special education (about $150 million of state aid and about $25 million of federal aid) will probably move out to about $400 million. $400 million out of about a $4 billion budget—that's state, federal, and local all together—when you think of it, it isn't that extraordinary. That's saying that 10 percent of our money should go for the handicapped children. But we must get from $175–$180 million up to $400 million when our calculations of the federal share indicate that it will phase in by increments until 1980. Meanwhile, as our lawyers look at the law, it calls for full entitlement as of about 1978, so we're going to be scurrying around looking for about $100–$150 million of additional state aid for special education to fulfill all of these requirements for a free, public education. That includes placement in private schools and private residential and day centers for special education. That is an enormous distraction at the moment. The state Board of Education and I are committed to fulfill the needs of handicapped children. But in looking for the next clusters of $30 million or $100 million to put in to secure additional equalization between the rich and the poor districts, it is an enormous challenge to figure out how do we do it and make sure we help handicapped children as well.

Another federal matter. The federal administrative judge ruled that Chicago's bilingual programs were inadequate. I interpret that as saying both the city and state governments should do a better job, should do more and faster, to meet the needs of bilingual children. There are now 500,000 citizens of Latino extraction living in the city of Chicago. The black population and white population in the last four years have been going down, while the Oriental population and the Spanish-speaking population have been going up. So this, too, is a very important challenge and we have the sword of the cut-off of federal funds over the head of Chicago and, by extension, also the state of Illinois.

I think that this conference is very well titled, "Dilemmas in School Finance." The dilemmas include how we can have excellence and equality, too; how we can expand our commitment to using school aid formulas to equalize educational opportunity at the same time when there are whole categories of children with unmet needs who have to be served. The kinds of complicated formulas we've been talking about aren't always the only way or even the best way to achieve our multiple goals.

APPENDIX B

Conference Discussion:

Variance in District Expenditures

One objective of the conference, "Dilemmas in School Finance: Illinois and The Nation," was to encourage a give-and-take among speakers and audience participants. The final session prompted an extended exchange of comments and questions focusing on issues associated with equalization of expenditures among school districts. Most of that discussion is reported here, beginning with a comment by Philip W. Jackson, professor and chairman of the Department of Education, University of Chicago. The speakers' panel in this session included Gerald C. Hayward, G. Alan Hickrod, James A. Kelly, and Suzanne W. Langston.

Jackson: When I first studied descriptive statistics many years ago, I learned that when you're describing a set of observations there are two most important descriptive statistics, the first having to do with the central tendency or the average of the set, and the second having to do with the dispersion of those observations around that central tendency, sometimes called the standard deviation or variance. Second, I learned that those two descriptive terms are independent; you can fool around with variance and it doesn't affect the mean and vice versa. As I've heard us talk about what goes on in the real world, the mean and variance of educational quality don't seem to be so independent. And you can't fiddle around with one without threatening the other in ways that disturb some constituencies. If you take the desire to reduce the variance in our educational quality as being the goal of equity, and if you take the desire to raise the mean of our educational quality as the goal of excellence, then there seems to me to be a real, not hypothetical, tension between these two goals. Furthermore, as I move outside the local community concerns I discern a vast difference in empha-

sis on which of these two goals is more important. At both the state and federal levels I hear a much greater concern with the problem of reducing variance and with the problem of equity in general. And at the local level I hear a much greater concern with the problem of the mean and the problem of increasing the quality. I don't know that this issue has truly been joined. I think the tension between these levels seems to exceed the range of creative tension and is becoming disfunctional if not actually pathological.

Kelly: I'd like to sharpen this point with the following question: if the highest spending school districts on the North Shore spend X dollars in year one, X dollars plus 5 percent in year two, and X dollars plus 10 percent in year three, would the constitutents and leaders of those school districts care how much is spent in the lowest spending districts? This is the issue that is raised in the circles that you say are concerned with quality when there is an effort to level up. It takes a lot of money, but it has been found in a dozen or fifteen states, the problems of which are about as great as California or Illinois, that where the money is insufficient and there is a levelling down, or a ceiling put on, or a Fleischmann approach to level to the sixty-fifth percentile, we find direct conflict between the two social objectives.

Audience: You don't have all the factors in there. It may very well be that while levelling up you have so many other geographic factors that, indeed, what comes out as equal expenditures reverses the equality, reverses the whole picture of excellence.

Kelly: I'm not trying to argue that the same number of dollars would be needed to provide the same education everywhere in the state. But I don't think the cost differentials range four to one in the state of Illinois (the current range of expenditures).

Audience: Part of the rhetoric I've heard today and many, many times before seems to suggest that, yes, a large number of the high-spending districts *would* care if Cairo, Illinois or someplace else were spending as much as they were, not only because it would probably mean they lost something fiscally, but because of a moral commitment to variance. There's a lot of rhetoric going around that variance is an end in itself, and that sameness, or standardization, or homogeneity of the schools in any sense is bad and should be avoided.

Kelly: It's a fundamental issue because we live in a society where most of us have seen our standards of living improve in our lifetimes and we want our children's standard of living to improve in their lifetimes. We have grown up in a world where just being better than we used to be is not 100 percent of how we feel in this society, but being better than others is part of how we feel about that. This is a society that *does* have social class differences in it. They are institutionalized in government, in zoning, in education, in taxes, and so forth. I think both feelings are involved and if we bring the discussion to this point we will get away from the discussion of just who's for something called equalization and who's not for it.

Audience: I think that's overstated and just plain wrong. I represent a constituency who, in the majority, would give up all state aid (and a lot more of their income taxes goes downstate than ever comes back) if they'll just be allowed to continue their local taxes. And for five consecutive years that was dropped with no way of recouping. That, I think, is the contention here. And that is the thing we haven't received an answer about. I don't think the theoreticians are willing to allow that to happen for some very obvious reasons.

Hickrod: All the things we talked about earlier—the lids, the "squeeze" factors, etc.—these don't tend to come from the theoreticians, but rather from the legislative side, from legislators who are concerned about the high level of property taxation. The only pressure you get from the theoretical side is concern about equalized yield. Now that's a legitimate concern all right. If you're asking, "Can a district be allowed to tax as much as it wants and then not equalize that yield for a poor district?," then the theoretician would probably be concerned because this would mean a wealthy district could put on whatever tax rate it wanted and simply increase the variance in expenditures per pupil while the property-poor district could lay on that same tax rate and not raise the local dollars. We have that now. We have a range in unit districts from $2.90 to $4.00 that is not equalized.

Kelly: Jerry Hayward said yesterday that he favors a very substantial levelling up of the resources available in poor school districts by using resources from general state revenues and perhaps, if I recall correctly, from a recapture provision or power-equalized

recapture of some kind, but he does not personally favor a rigid ceiling or cap on the expenditure capability of other school districts. But he is stipulating in that, if I read him correctly, a substantially enhanced level of resources or quality, however you want to call it, in the bottom half or two-thirds of the distribution of school districts. In New Jersey, for example, Bergen County school districts resisted and fought *Robinson* v. *Cahill* for five years. None of them was getting state equalization aid. They all got about $125 to $150 per pupil per year in flat-grant aid. These are rich suburban school districts. They were spending between $2000 and $2400 per pupil per year, which is very high by New Jersey standards. Those school districts expressed themselves politically. Their political behavior could be characterized as opposed to school finance reform in New Jersey, not because there was the threat of a cap. It is also fair to say that those districts favored pulling out of the state system and raising school revenues totally locally and fighting any income tax whatsoever. They controlled the legislature six years on this subject; they fought the income tax, fought the idea that the state should have the revenue capability to bring up the tail end of the distribution in the cities, which have a high black population and very high property tax rates. Is there a political willingness on the part of education interests in a state to make equalization real while not capping the top? I'm saying to you, as a matter of fact, that in the states where there has been school finance reform, the coalition has not emerged and the representatives of rich school districts have not taken a long-run view, have not said, "We're all going to do better if we can level this system up without capping us."

Audience: You're absolutely wrong about the state of Illinois. You are wrong about the history of how the income tax got passed here. And one of the units that helped pass it, after conducting a four-year study of it, was a North Shore group. They came out with a recommendation for an income tax tied to a reform of the state aid formula. The income tax was put through by a Republican governor. It was several years later after the election of a Democratic administration before you got any school reform. But I want to ask this question, which has still not been answered: What defensible practical or philosophical reason is there to justify the capping of local effort if you assume that everyone will get behind, let's say, an income-tax-weighted state aid plan? We in suburban Chicago are vast tax exporters via the income tax. We are not complaining about it; there is no one in our community who has complained.

Kelly: Not to pose as an expert on Illinois school finance, but the difference between us is that according to you, you have a fine income-tax-based school finance equalization system and according to your state superintendent of education there is a variation of $900 to $3750 per year in per pupil expenditures. If you told me that the range in per pupil expenditures was $2500 to $3750 and you were paying an income tax like we pay in New York, which is so high that it hurts, then I would say I have no problems whatsoever with the type of property tax freedom that you want.

Audience: I would answer that we have had a Democratic legislature since this provision came in (or most of the time) and they have come in on a commitment not to increase the income tax, which *needs* to be increased. The remedy is to increase the income tax and not to cap the local district.

Kelly: We're not in disagreement on that. What I was trying to raise in my comments was that the political coalition to move education expenditures is not what it used to be at the state level. In most states people who want to do those kinds of things don't even talk to each other.

Audience (to Hickrod): Am I right in assuming that so long as political pressures keep the lower levels of expenditures from being raised, you would be for caps on the top?

Hickrod: No, I don't like caps, "squeezes," or any of those procedures. In the past we have actually used leverage mechanisms (which I've written about elsewhere). We deliberately allow places like New Trier to get out in front and then we simply say, "Look at the range. It's so vast and we have to do something about it. It's an obligation of the state to do something about these poor districts." And we deliberately use that leverage mechanism to bring up the bottom. Now if we don't have any out in front we can't lever up the bottom, and it really gets down to something as fundamental as comparing what certain people have and what certain people don't have.

Langston: I would reiterate that we're not the people making the decisions. Dr. Hickrod obviously played a large part in the development of the resource equalizer. But the cap (or tax rate rollback)

wasn't in the original recommendation. It came from the legislators who had other kinds of concerns.

Hickrod: It was part of the tax relief climate. That rollback was put in there as an alternative to a major bill that was going through to freeze *all* property taxes where they were—an Indiana-type freeze, where nobody could change the tax rate—and the rollback was accepted in lieu of the freeze, but I had nothing to do with it.

Audience: Two comments. First, I know that Dr. Hubbard has gone on record supporting caps to equalize resources. He is well respected and has much influence in the legislature. Second, the reason for the discrepancies in Illinois is the access question. It's not the question of caps or the fact that the people on the North Shore want to penalize the other districts. It's just that, given the way the resource equalizer bill was developed, there is an access question and until that law is changed, many districts will not be able to convince their constituencies to tax themselves at the level so there can be equalization.[1] Until access is changed we will not level up. I agree that we *can* level up without hurting the high tax rate districts, and I also would agree with others here that I have never heard anyone complain about levelling up other districts. And I think most of the people in this room who are from the North Shore would support that, but what we vehemently object to is Dr. Hubbard's feeling that the only way you can level up is by capping or lowering the top.

Kelly: The way this works out in the long run is that the political support of education that I feel is useful, which flows out of the involvement of local citizens in shaping education policy, including revenue policy, is going to be threatened in many states in the next ten or fifteen years by state constitutional concern about gross inequalities. I would call to your attention that in about half of the dozen to fifteen states which have made major changes in their school finance laws, less than half were ordered to do so by courts. The others have found a way on their own to increase their taxes. The hard coalitions existed that fought for tax increases and maybe they exist here. If so, fine. But if not, you should be prepared to have the conversation complicated eventually by court concern about four-to-one variations in spending that are substantially wealth related.

Audience: There's another issue that hasn't been discussed at all.

If you're talking about equal educational opportunity you're not really talking about dollars. I would hazard to say that we could spend the same amount of money on the children of Chicago as we're spending on the children of New Trier without getting equal educational opportunity. I think the facts show that Chicago is spending much more than many of the other school districts in the state and is ending up with much inferior results. So I don't think it's a matter so much of how much you spend, but how you spend it. Results relate in part to the socioeconomic background of the people you are educating.

Kelly: Your points are well taken.

Audience (to Hayward): Another confounding factor is assessment practices. Is anything being done on assessment practices in California?

Hayward: We assess at 25 percent of market value and there is a state board of equalization whose job it is to compare the assessors' figures with the market value of homes at actual sales and they make adjustments for each county. So the state's overall equalization formula reflects that adjustment. In California we don't have near the problem in assessed value difference that you do in Illinois. In fact we're moving in a direction to strengthen an already good system.

Audience: It is important to point out that while a lot of the North Shore districts are high-expenditure districts, they are not problematic in terms of tax base per pupil. Some specific tax shelter areas are really causing the problems because of enormous industrial concentrations per pupil. We would all benefit from attention to those kinds of concentrations of wealth and the assessment practices that protect them.

Audience (to Hayward): To return to the issue of restrictions placed on high-wealth districts in an effort to control either property tax rates or expenditure variance, have you encountered no resistance from the high-wealth districts to the "squeeze" and the "Jiff" enacted into California finance law?

Hayward: Clearly what finance reform we've had in California wouldn't have happened without a court mandate, and it was only the prospect of something worse (such as a state-wide property tax,

a county equalization formula, or a full state assumption formula, all of which were introduced in the legislature) that caused the high-wealth districts who have traditionally opposed any school finance reform to accept the solutions I've described. In the last three years the high-wealth and low-wealth districts have all worked together on the school finance reform that the head of the Senate Finance Committee has sponsored. It wasn't that it didn't cause them some pain but that it was less painful than what other people were talking about.

Audience: I don't think you could build a coalition in Illinois around a recapture plan that would take two or three dollars out of every five from high-tax-levy districts, but I think you could get support for finance reform based on an increase in the income tax.

Audience: I think we've been too glib in thinking that the high-wealth districts, given what we currently have in Illinois, will join in support of no caps just because a bill has no caps. We haven't gotten to full funding in Illinois yet so we haven't reached the plateau. We're going to reach it soon. When we get to the place where the high-expenditure districts no longer have any growth in resources and, therefore, cannot keep up with the cost of living, we will then indeed be going backward, not forward or holding our own. If, during that period of time, we have an extreme effort made at the state level to reduce the disparities in spending by putting a great deal more money from the state level into those low-expenditure districts it means there will have to be an overall tax on all people in Illinois. And during that period of time when there's a heavy tax coming from the state we're not going to have very much activity to increase taxation at the local level regardless of how much sympathy people have for education.

Hickrod: Yes, ultimately there is a contest for scarce resources. You have to get through the difference between property valuations and state aid to see that in the end there's competition for that buck in the taxpayer's pocket.

Audience: There has been a good deal of discussion of equal educational opportunity and variance among district expenditures. What's reasonable variance for our state under our taxes?

Hickrod: I don't know how you'd get at that except through com-

parisons among the fifty states. One work which makes such comparisons is Eugene McLoone's *Profiles in School Support* which is published every ten years. It lays out the variance within states and contrasts one state to another. That still doesn't give you a norm, only a display of the data.

Kelly: A norm on acceptable expenditure variances is a political value judgment.

Hayward: What we're trying to do in California is establish a new standard for variation because the court's standard is politically impossible and probably not desirable to implement. If you imagine districts being displayed in percentile ranks by expenditure, we're wanting to move all districts spending below the seventy-fifth percentile district up to that level. So we're trying to establish a base expenditure for all districts, to be at the seventy-fifth percentile level, and beyond that base have some kind of dollar range, say for example, $200. By 1980 we project that we can have 90 percent of all districts in a range between the expenditure level of the old seventy-fifth percentile districts and $200 over that level. This means that 10 percent of the high-wealth districts will deviate and will be allowed to do so. This is California's example of how a political decision creates a standard of variance in district expenditures.

Audience (to Hayward): Isn't it possible that you can raise the base level expenditures without restricting the top and still end up with nearly the same dispersion as before? Isn't this only a palliative and don't you encounter the same disquietude about variance?

Hayward: No. The disquietude only results when the districts at the top are only allowed to grow at something less than a reasonable amount. They don't care, at least theoretically, what happens to the other folks in the state.

Audience: Unless they're competing for scarce resources.

Hayward: But districts in the upper 10 percent in California don't get any state money other than the constitutionally mandated $125 per child. The question for them is how much money are they going to be allowed to get from their local constituents, the property taxpayers.

Kelly: Jerry Hayward's answer to what is reasonable in variance, is that the wealthy districts in California are allowed to spend more from local resources but not several times more.

Hayward: There will be some disquietude among high-wealth districts when they have to share some of their tax money because they have voted levies in the range where the "Jiff" is in effect.

Audience: No one is talking about inputs at all, and as far as I remember, the vast input is teachers' salaries. Has anyone thought to calculate how much disparity we can tolerate, or rather how close it has to get, before you have essentially a free choice situation in which people are choosing to teach or administer or counsel pretty much in terms of personal preferences rather than on the basis of thousands of dollars difference in salaries?

Kelly: Some of those studies have been started under the rubric of cost differential analysis in which you look at a number of labor market related questions, none of which though get at the subjective aspects of teaching.

Audience: I'm not asking about the *quality* assessments of teachers, but the matter of choice—that situation when a teacher wouldn't have to make the altruistic decision to teach in low-salary districts. My point reiterates the earlier question which asked if there is no criterion by which we can know when the expenditure disparities are no longer critically great.

Kelly: I am giving you a labor market answer to that question. I'm saying in effect that there are studies under way now to try to look at that, but in the long run that has to do with who applies for what jobs, and with monitoring of these streams of people. Of course the situation is now in the context of an oversupply of teachers, a factor which will influence the willingness of people to move to various places.

Audience (to Kelly): Were you saying earlier that among conference participants there exists the nucleus for a coalition which could achieve state financing without caps on the higher-wealth districts and a levelling up of the lower-wealth districts?

Kelly: Let me respond this way. If in the state of New York the school districts of Nassau and Westchester Counties seriously put

their minds to issues of school equalization, as distinguished from protecting what they have, there would be a different result in Albany.

Hickrod: That's what happened in Illinois. You have a coalition between the central cities and the suburbs and they get the legislation that they want. It's quite a remarkable thing and there are people in this audience who have helped put it together. But there's an element missing in this discussion: that's the rural school district, the low-spending district.

Audience: Haven't the courts tended to act in behalf of the rural and low-spending districts?

Hayward: I think the problem with the courts is that they have been concerned too much with the range and the extremities and too little with the variance. In California we're still going to have the oil-wealthy district of McKittrick spending $3,000 a year per child, but that's not a big issue.

Kelly: The message that Jerry Hayward is bringing, backed by a sense of *Realpolitik*, is to try to figure out the core of the problem in the middle 80 percent of the distribution so that you solve most of your problems. It's a lot easier to solve most of the problems than to get hung up trying to solve all of them at once. Don't get preoccupied with the extreme range but try to bring the middle range into sharp focus via policy. That is a point of view that is politically persuasive in the short run. It may turn out to be constitutionally acceptable in the long run.

Note

1. For a fuller explanation of the "access" problem, see chap. 8, p. 90.

APPENDIX C
Schoolpeople Identify the Issues

During a session of the conference, "Dilemmas in School Finance: Illinois and The Nation," participants were given the charge to identify the most salient issues in school finance. Participants were predominantly school board members and central office administrators whose concerns, therefore, constitute a local perspective on school finance.

Four groups generated lists of issues, and each group culled its list to approximately ten items of greatest significance. The following is a summary overview compiled by James Kelly and the four lists as they were reported to the conference.

OVERVIEW James A. Kelly

I have arbitrarily categorized the issues raised in the participant groups into four substantive categories. Let it be noted that they all overlap; they are not mutually exclusive and certainly not inclusive.

Regular School Finance Issues

This is the largest category in terms of the number of issues that were identified by the groups. Included within the school finance category were the following kinds of issues, listed with no particular order:

Increased public education revenues. This subcategory included finding new taxes, getting rid of bad old taxes like the personal property tax—a concern for total aggregate revenues available to public education.

How to level all district expenditures up without "caps." Or how to achieve the goal of equalization without any restrictions on what the

wealthy may do. Three of the four groups indicated that was an issue.
Fair and uniform assessments.
Utilizing circuit breakers.
Attention to cost differentials.
Improve the tax climate in Illinois.
More federal aid for Illinois. These last two items are not concerns for an increased aggregate amount of resources for education; they want "more for us and less for others" because of the obvious competition among states for industry, tax base, and federal revenues.
Improving revenue predictability for school districts. An age-old issue in school finance.
Equalization. Is it desirable? Is it feasible? If so, how are we going to get it? Would its effect be to standardize the provision of education, as distinguished from equalizing the financing of education? If the dollars are equal, are programs necessarily also equal? What is the proper local, state, and federal role in school finance?
The impact of inflation on school finance and personnel costs.
The financial effects of declining enrollments.

That is a potpourri of issues which cut across each other and are the workaday problems of the school finance world. These items represent about one-half of the issues identified by the four groups.

Federalist Issues

The second category has to do with the function of the federal system in education.

Maintaining local control. The question of governance is getting a lot of attention these days.
Defining the educational or programmatic need justification for state and federal categorical programs. This concern came up in a couple ways. One group asked, "How do you know when a local school district is not meeting the programmatic needs of the local community?" Another group was concerned with shifting from categorical to more general state aid. Of course, most state aid in the United States is general aid. Illinois has an unusually high portion of its aid that is categorical (about one-third).
Consolidation and regionalization.
Less federal intrusion in education.

Educational Quality

The third set of issues deals with educational quality.

How to increase the dollars for educational research.
The function of the "lighthouse" school district.
The role of national and other major assessment programs in determining the educational effects of school finance reform.
The efficiency of educational expenditures in terms of size and quality.

Political Support

The fourth and smallest group of listings was concerned with political support for education.

How to increase the political influence of the education lobby.
How to increase public support for education.

PARTICIPANTS' LISTS OF THE ISSUES

Group A

- How can the supply of funds for education be increased?
- We need greater expenditure and broader disbursement of funds for research.
- How can poor districts be helped without curtailing wealthy districts?
- How can local control over fiscal and program matters be maintained and the drift to reliance on state and federal power be halted?
- How can the education lobby become more effective?
- How can local input be secured when the Illinois Office of Education is formulating major changes?
- How can the general public be encouraged to support greater revenues for education?
- What evidence is there that local districts have failed to meet educational needs and that state and federal programs have succeeded?
- Is there a proper function for "lighthouse" school districts?

Group B

- Maintenance of local control of education.
- Establishment of fair and uniform assessment practices.
- Determination of what constitutes "basic" education.
- New revenues for education. How to replace the personal property tax loss.
- Utilization of the "circuit breaker" factor.
- Determination of cost differentials among school districts.
- Avenues to move from categorical funding to general state aid.
- Consolidation or regionalization of governmental or political subdivisions.
- Establishment of a healthy tax climate in Illinois for business and industry.
- How Illinois is to secure its fair share of federal aid.

Group C

- Revenue predictability at the local level (information which will permit short- and long-range planning).
- How do you measure local cost variations? How do you incorporate these data into a formula?
- Equalization of expenditures—can it be done?
- Equalization of expenditures—should it be done?
- Equalization of expenditures—on what basis? Court rulings? Legislation? Constitution?
- Equalization of expenditures—will it result in standardization?
- Equalization of expenditures—is it desirable?
- What are the respective roles of local, state, and federal governments concerning funding, regulating, and programming?
- Will equalization of expenditures result in equalization of programs and/or opportunities?
- What have the attempts to equalize achieved to date? Do we need a national assessment program to determine this?

Group D

- Equal educational opportunity: what is its definition and what is its relationship to equality of expenditures?
- How can we maintain quality programs as determined by the locally responsible agency?
- Receptive attitude toward the right of local districts to tax themselves for high expenditures.
- Explore protection for the local district to deal with inflation and economic factors (salaries, tenure, mobility) while reducing expenditure variation.
- Effective use of available funds (size/quality relationship to performance output both educationally and operationally).
- Impact of declining enrollment on formulas.
- Impact of factors outside education (assessment, political enforcement practices, etc.) on access to education funds.
- Relationship of special mandated, basic, and minimal programs, and their availability to all students, to other categorical and general aid.
- Political reality in developing a formula that addresses the problem (as in present situation with choice of two formulas in Illinois).
- Who holds responsibility for educating the child in low expenditure districts?
- How can we relate state aid to local control?
- Educational bankruptcy—what then?
- Small districts have difficulty gaining access to categorical aid.